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ABSTRACT

Although it is likely that there will be a substantial number of children who remain poor in spite of considerable work effort by their parents as families leave welfare roles, there has been relatively little research on children in working poor families. The primary purpose of this project is to develop a definition of working poor families and to provide a baseline of descriptive information about them. The primary data sources for the study were the 1987, 1988, and 1990-1993 panels of the Survey of Income and Program Participation and the Current Population Survey for 1996 and 1997. The findings indicated that children were much less likely to be poor if they were living in a working family. Over time, there was a rough balance between the number of children entering and the number leaving poverty, and children whose parents met the work standard had higher odds of leaving poverty and lower odds of entering poverty. There were racial/ethnic and family structure differences in the percentage of poor children whose families met the work standard. There were substantial differences between working poor families and poor families not meeting the work standard with respect to family structure, education, home ownership, health insurance coverage, car ownership, and child care costs. There were also important differences between working poor families and more prosperous working families in terms of home and car ownership, paid child care participation, and health insurance. (Contains 32 references.) (KB)

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Child Trends

Summary Report

Working Poor Families with Children

Richard F. Wertheimer, Ph.D.

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Introduction

"Increasing employment and earnings of needy families . . . [and] decreasing . . . child poverty" are two explicit objectives of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA).[1] However, imposing a stringent work requirement does not guarantee that a family will escape poverty. In 1996, over 2.7 million children (19 percent of all poor children) lived in families with incomes below the official poverty threshold, although the head of the household worked full-time, full-year.

The existence of a substantial number of children who remain poor in spite of considerable work effort by their parents represents a possible scenario for what we can expect when families leave the welfare rolls. However, relatively little research has focused on children in working poor families. Indeed, no generally accepted way of even defining them exists.

The primary purpose of this project is to develop a reasonable definition of working poor families and to provide a baseline of descriptive information about them. Trends can then be tracked over time, as welfare reform proceeds. Currently, we can use this descriptive information to address four important issues:

1. How likely is it for children in working families to be poor?
2. How common is it for children in poverty to have working parents?
3. How are working poor families different from poor families not making a substantial work effort?
4. How are working poor families different from other working families?

Who are working poor families?

We have used the official definition of poverty to determine if a family unit is poor. In 1996, the poverty threshold was $16,036 for a family of four.[2]

Setting the standard for counting a family as a "working" family is a judgment call. Since poverty is defined based on annual income, we measure work effort as total hours worked annually. Because our study is focused on children, we use a family-based definition of work effort. Consequently, for two-parent families, we add together the hours worked per year for both parents.

The working poor have become a focus of increasing attention due primarily to welfare reform and its focus on encouraging increased work effort. Therefore, we have based our standard on the work requirement imposed upon states by the 1996 welfare legislation. The work required of single-parent families with children under age 6 is 20 hours per week, while the work required of two-parent families is 35 hours per week. We have

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[1] U.S. Congress, Personal Responsibility and Work Opportunity Reconciliation Act of 1996, Sec. 411.

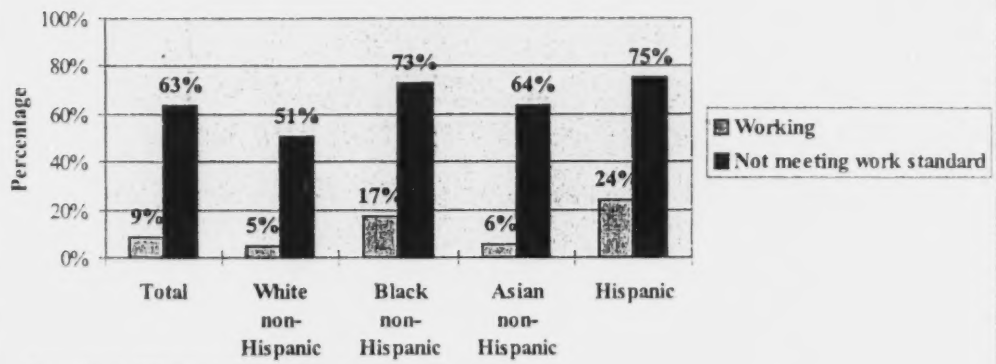
[2] The official poverty standard has many deficiencies that have been carefully described elsewhere. The most important deficiencies for purposes of this study are that refunded Earned Income Tax Credit (EITC) payments and non-cash benefits (*e.g.*, Food Stamps) are not included as economic resources, income and payroll taxes are not deducted from income, and work-related expenses (especially child care) are not deducted from income.

translated this into a work standard of 1,820 hours per year for two-parent families and 1,040 hours per year for single-parent families. Thus, we have defined any family with income below the poverty line and with at least these many hours of work during a calendar year as "working poor." Any family with income below the poverty line and not enough hours of work to meet this annual work standard is defined as "poor—not meeting work standard."

How likely is it for children in working families to be poor?

Children are much less likely to be poor if they are living in a *working* family. According to 1996 estimates from the March 1997 Current Population Survey, 20 percent of all children (13.8 million) lived in families whose incomes were below the official poverty threshold. However, as shown in Figure 1, among children living in families that meet the work standard, only 9 percent were poor. In contrast, among children in families not

Figure 1. Of all children, percentage living in poor families by work standard and race/ethnicity, 1996



Source: March 1997 Current Population Survey

meeting the work standard, 63 percent were poor. Thus, in 1996, children living in families not meeting the work standard were seven times as likely to be poor as children living in working families.

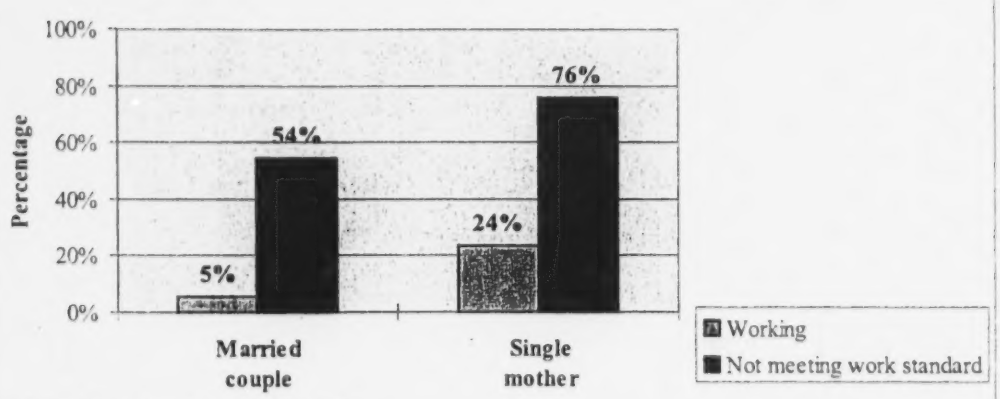
This difference in the likelihood of poverty also holds for the four racial/ethnic groups in Figure 1. Although black and Hispanic children in working families have a higher likelihood of poverty than comparable white or Asian children, work is consistently associated with dramatically lower levels of poverty.

The likelihood of poverty for children in working families is also lower when children in married-couple families are considered separately from those in single-mother families. As shown in Figure 2, among children living in married-couple families meeting the work standard, only 5 percent were poor. In contrast, among children in married-couple families not meeting the work standard, 54 percent were poor. Among children living in single-

mother families meeting the work standard, only 24 percent were poor. In contrast, among children in single-mother families not meeting the work standard, 76 percent were poor.

In short, the likelihood of poverty is lower if a child has one or more working parents. However, as we shall demonstrate in the next section, it provides no guarantee of escaping poverty.

Figure 2. Of all children, percentage living in poor families by work standard and family structure, 1996



Source: March 1997 Current Population Survey

Moving in and out of poverty: effect of work

Over time, there is a rough balance between the number of children entering and leaving poverty. For example, according to analysis of the Survey of Income and Program Participation (SIPP), 2.6 million children who were poor in 1991 left poverty in 1992, and 2.6 million children previously in families above the poverty line entered poverty in 1992.[3] Since about 12.7 million children were in poverty in 1991 (according to analysis of SIPP), about one in five children left poverty between 1991 and 1992 and were replaced by a different group but equal number of children.

For children living in poor families not meeting the work standard, increasing parental work effort to meet or exceed the work standard is successful at removing the children from poverty about half the time. Conversely, having one's parents meeting the work standard for two consecutive years helps nonpoor children avoid falling into poverty. According to analyses of SIPP, for children who were not poor in 1993 and whose parents met the work standard in both 1993 and 1994, the likelihood of moving into poverty in the

[3] When the economy is growing rapidly, the balance shifts in favor of children leaving poverty; when the economy is in recession, the balance shifts the other way.

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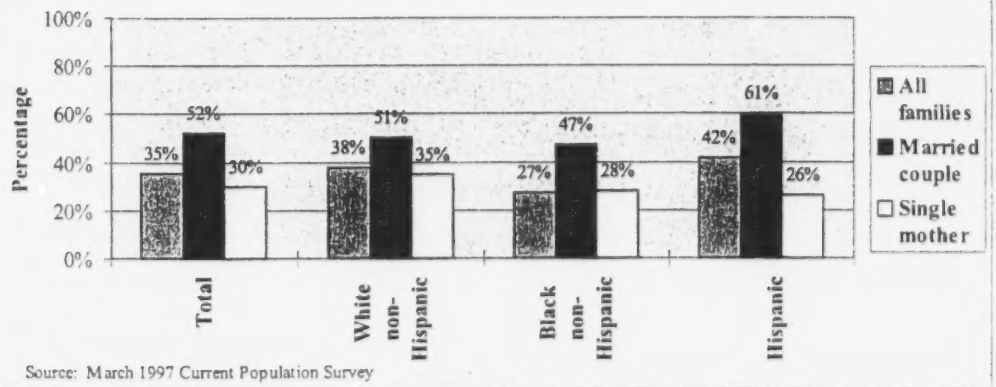
second year was only 2 percent. In contrast, if nonpoor children's parents met the work standard in 1993 but not in 1994, the likelihood of moving into poverty was 15 percent.

In short, while there is substantial movement of children into and out of poverty, children whose parents meet the work standard have higher odds of leaving poverty and lower odds of entering poverty.

How common is it for children in poverty to have working parents?

Although children living in a working family have a substantially lower likelihood of a child being poor, 5.0 million children lived in poor families that met the work standard in 1996. As shown in Figure 3, 52 percent of children in poor, married-couple families had parents who met the work standard. Meeting the work standard is significantly less common for children in poor, single-mother families. In 1996, only 30 percent of children

Figure 3. Percentage of poor children whose families meet the work standard, by race/ethnicity, 1996



Source: March 1997 Current Population Survey

in poor, single-mother families had a parent who met the work standard.

Among the three largest racial/ethnic groups,[4] poor Hispanic children living in married-couple families were the most likely (61 percent) to have parents meeting the work standard. In contrast, poor Hispanic children living in single-mother families were the least likely (26 percent) to have their parent meet the work standard.

How are working poor families different from poor families not meeting the work standard?

There are substantial differences between working poor families and poor families not meeting the work standard with respect to family structure, education, home-ownership,

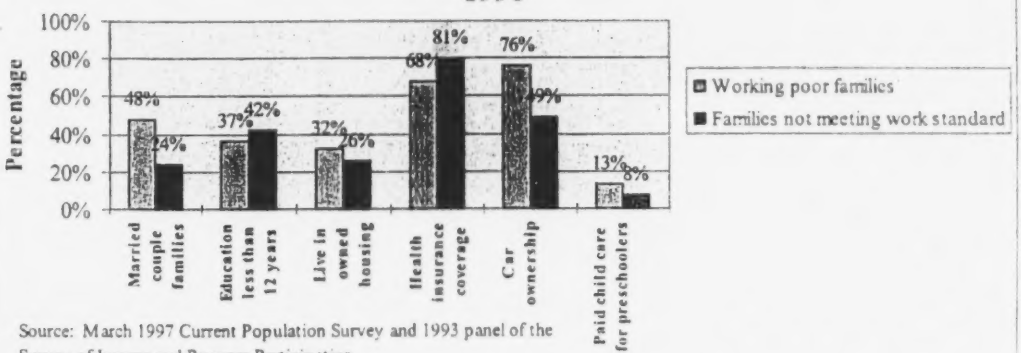
[4] Statistics for Asian children are not shown due to small sample.

health insurance coverage, car ownership, and child care costs. As shown in Figure 4, 48 percent of children living in working poor families lived with both parents, while only 24 percent of children living in poor families not meeting the work standard lived with both parents.

Compared with children in poor families not meeting the work standard, children in working poor families are:

- more likely to have at least one parent who has completed 12 years of education;
- more likely to live in owner-occupied housing;
- more likely to live in a family that owns a car;
- more likely to be in preschool child care paid for by parents; and
- less likely to be covered by health insurance.

Figure 4. Percentage of children with selected characteristics in working poor and poor families not meeting work standard, 1996[1]



Source: March 1997 Current Population Survey and 1993 panel of the Survey of Income and Program Participation

[1]Car ownership statistics are for 1994; child care statistics are for 1993

These differences illustrate some of the obstacles to meeting the objectives of welfare reform. First, 42 percent of the parents of children in poor families not meeting the work standard lack a high school diploma, and about half do not own a car. This may put them at a serious disadvantage in finding and holding a job--especially in a labor market that is less vibrant than today's.[5]

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[5] During 1998, about 28 percent of adults on the welfare rolls were engaged in work-related activities as defined by the TANF rules (Pear, 1998). This provides evidence that welfare reform is promoting increased work activity on the part of welfare recipients, in spite of their disadvantages in competing in the labor market. It should be noted, however, that this increase in work is occurring in the context of an unusually robust economy with unemployment rates lower than they have been since 1969 (during the Vietnam War) and the lowest unemployment rates for blacks and Hispanics since statistics first began to be published for these groups.

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Unfortunately, providing the financial assistance and the time needed to help these parents complete their high school education conflicts with the goal of immediately increasing these parents' work effort. Given the already heavy demands on the time of working single mothers, it would seem unlikely that many of them would be able to devote time to obtaining a high school diploma or a post-secondary education.

This suggests that policy makers should continue to explore the payoff from adult education. Analysis of the JOBS program by the Manpower Development Research Corporation (MDRC) may provide a definitive answer to this question over the next two years. Regardless of the payoff to *remedial* education, these findings underscore the importance of encouraging students who are still in school to earn a high school diploma and consider post-secondary education.

Second, a significantly higher percentage of preschool age children in working poor families are in child care arrangements paid for by their parents. This suggests that some parents not currently meeting the work standard and not currently paying for child care may have to obtain paid child care when they increase their work effort. Since child care costs are likely to consume a substantial percentage of working poor families' income, on-going subsidization of child care costs may be necessary. Welfare reform legislation increased federal spending on child care assistance in 1997 by an estimated 27 percent over prior law (Long and Clark, 1997). However, it did so by consolidating several key federal child care assistance programs for low income families into a single block grant entitled the Child Care and Development Fund (CCDF). CCDF give states much more autonomy in both setting total child care spending and in how both the federal and state money is spent. Under CCDF, states could either increase or decrease total child care subsidies and could either increase or decrease the percentage of a family's child care expenses that are subsidized.

Third, the low health insurance coverage rate for children in working poor families suggests that coverage rates for children may fall as poor families not meeting the work standard make the transition into work. The newly enacted State Child Health Insurance Program (CHIP) is providing block grants to states that provide coverage to children not covered by health insurance and whose family income is below 200 percent of the poverty threshold.

How are working poor families different from other, more prosperous, working families?

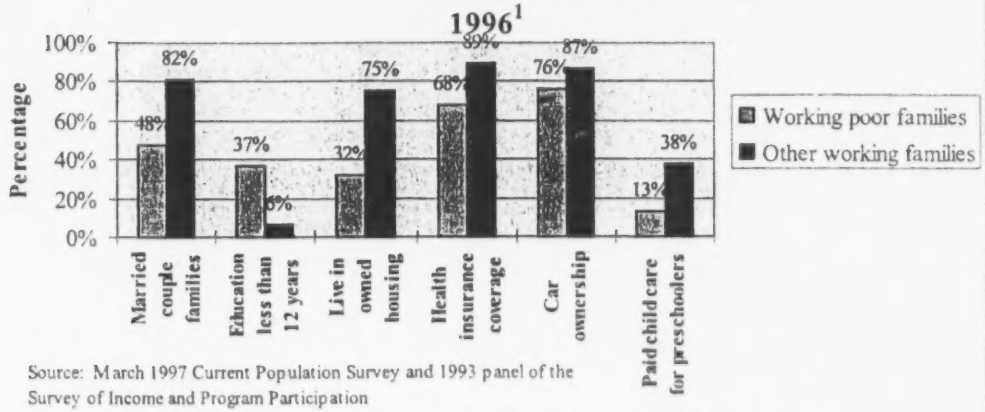
While there are substantial differences between working poor families and poor families not meeting the work standard, there are also important differences between working poor families and other, more prosperous, working families. As shown in Figure 5, a high school diploma is nearly universal for at least one parent in working families above the poverty line, and children are twice as likely to live in owner-occupied housing. Car ownership rates, participation by preschoolers in paid child care, and health insurance coverage rates are higher as well. The low rate of participation in paid child care by preschoolers in working poor families may be due to the high cost of child care relative to family income for families in poverty. Of those working poor families paying for child

care for their preschoolers in 1993, half paid more than 20 percent of their family income, and one out of five paid more than 40 percent of their family income.

These findings suggest that moving children from the ranks of the working poor families to above the poverty line may require a substantial investment in the human capital of their parents. As noted in the previous section, this investment may be very difficult to undertake if we are expecting these parents to be making a substantial work effort at the same time.

Another alternative is further expansion of the earned income tax credit (EITC).[6] Until the EITC reaches the phase-out point, its incentives are completely consistent with welfare

Figure 5. Percentage of children with selected characteristics in working poor and other working families, 1996[1]



Source: March 1997 Current Population Survey and 1993 panel of the Survey of Income and Program Participation

[1]Car ownership statistics are for 1994; child care statistics are for 1993

reform. It encourages expanded work effort by increasing the amount of disposable income received for each hour of employment. A recent study credits the EITC with moving the families of 2.4 million children above the poverty threshold (Center on Budget and Policy Priorities, 1998).

A third plausible way to help the children in working poor families to escape poverty is to encourage marriage for single parents. Marriage provides a family with at least the potential for two earners, and two parents working full-time can generally escape poverty as measured by the official standard.

However, many of the programs that have been set up to provide assistance to low-income families with children weaken the economic incentive for a single parent to get married. Both the EITC and many needs-tested transfer programs phase out benefits as income

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[6] As of 1997, working families with at least two children could qualify for an EITC as large as $3,656, compared with only $851 ten years earlier.

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increases, and these phase-out provisions often apply at or near the poverty threshold.[7] These phase-out features also reduce the incentive for parents to increase their hours worked or invest in education or training to increase their wage rates.

Although it is impossible to eliminate altogether these "phase-out" problems, it is possible (at a substantial cost to the federal treasury) to adjust upwardly the ranges at which they apply or to reduce the "tax rates" they implicitly impose.

Summary

Although having one or more working parents reduces the likelihood that children will live in poverty, it does not provide a guarantee of escaping poverty. Thus, if welfare reform succeeds in moving more parents into the labor market, more working poor families may be a consequence.

We can expect the transition from welfare to working poor to be difficult (especially in a labor market that is less robust than today's), because poor parents not meeting the work standard are at a competitive disadvantage in the labor market compared with working poor parents. More specifically, parents not meeting the work standard are less likely to have graduated from high school and less likely to own a car.

Moving children from working poor families above the poverty line may be even more difficult since working poor parents are at a similar competitive disadvantage in the labor market compared with other working parents. In short, if eradicating child poverty is the objective, welfare reform is only the first step in a long and difficult process.

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[7] For example, in 1997, for a family with two children earnings between $11,930 and $29,290, the EITC was reduced by 21 cents for every dollar of additional earnings. This phaseout "tax" is imposed on top of the federal payroll tax rate, the federal income tax rate, and the marginal state income tax rate.

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Child Trends

Final Report to the Foundation for Child Development

Children in Working Poor Families

Richard F. Wertheimer, Ph.D.

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February 1999

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Chapter 1. Introduction

In 1996, 14.4 million of all children (about 20 percent) in the U.S. lived in families below the official poverty threshold, which was $16,036 for a family of four. For African-American and Hispanic children, the poverty rate was 40 percent, while, for white children, the rate was 16 percent. Child poverty rates also varied substantially by family structure. In 1996, only 10 percent of children in married-couple families were poor, while nearly half of all children in single-mother families were poor (Lamison-White 1997).

Of the 14.4 million children living in families below the poverty line in 1996, 10.2 million (about 70 percent) received some form of means-tested transfer payment such as Aid to Families with Dependent Children (AFDC).[1] This implies that 4.2 million children were living in poor families who were *not* receiving payments from means-tested transfer programs.

Welfare reform and work

Welfare reform has placed a much heavier emphasis on work. Under the terms of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) (Greenberg and Savner 1996), states must:

- Require a parent receiving assistance under the Temporary Assistance to Needy Families (TANF) program to work once the State determines the parent or caretaker is ready to engage in work, or once the parent has received assistance under the program for 24 months, whichever is earlier;
- Require a parent receiving assistance and not exempt from work requirements to participate in community service if not employed; and
- Meet an all-families and a two-parent-family work participation rate requirement, there being a fiscal penalty for failing to meet the requirement. The work required of single-parent families with children under age 6 is 20 hours per week, while the work required of two-parent families is 35 hours per week.

"Increasing employment and earnings of needy families . . . [and] decreasing . . . child poverty" are two explicit objectives of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA).[2] However, imposing a stringent work requirement does not guarantee that a family will escape poverty. In 1996, over 2.7 million children (19 percent of all poor children) lived in families with incomes below the official poverty threshold, although the head of the household worked full-time, full-year.

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[1] Calculation by the authors based on estimates by the Bureau of the Census.(Lamison-White, 1997).

[2] U.S. Congress, Personal Responsibility and Work Opportunity Reconciliation Act of 1996, Sec. 411.

Overview of the study

The existence of a substantial number of children who remain poor in spite of considerable work effort by their parents provides a possible scenario for what we can expect when families leave the welfare rolls. However, relatively little research has focused on children in working poor families. Indeed, no generally accepted way of even defining them exists.

In this study, we explore the relationship between the poverty rates of children and the work behavior of their parent(s). By doing so, we can learn about both the prospects and limitations for reducing poverty among children by increasing the work effort of parents.

Parental work effort

One way of exploring this relationship is to compare the poverty rates of children whose parent(s) make a substantial work effort with those whose parent do not make a substantial work effort. For children living in married-couple families, we expect a very strong relationship between parental work and poverty because even low-wage parents can escape poverty if they work enough hours.[3] In contrast, for children living in single-parent families, even a full-time, full-year work effort may not be enough to allow children to escape poverty if the parent is able to secure only low-wage employment. To explore the magnitude of this problem, we calculate the percentage of poor children living in families where the parent(s) makes a substantial work effort.

Earnings

Because increased work effort alone may not be enough to allow children to escape poverty (especially in single-parent families), we also explore the relationship between the poverty rate of children and the earnings capacity of the higher-earning parent in their family. Clearly, increased work effort will be far more effective at reducing child poverty if the parent's wage rate exceeds the legal minimum. Since the parental wage rate is likely to be related to that parent's educational attainment, we also explore the relationship between the child poverty rate and parental education for those children whose parent(s) already make a substantial work effort.

Defining poverty

The discussion so far has implicitly assumed that the official poverty threshold was an appropriate measure of a minimally acceptable level of well-being for children. However, the official poverty threshold fails to take into account several key factors influencing the well-being of children. Two of the most important of these factors are work-related expenses (especially child-care expenses) and health insurance coverage.

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[3] In 1997 full-time, full-year earnings (3,640 hours per year) for two people earning the minimum wage ($4.75 per hour) was $17,290 . The poverty line for a family with two adults and two children was $16,276.

Child care expenses

If single parents of young children living in poor families are not working at all or working relatively little, the availability and cost of adequate child care may not be an important issue. Similarly if a married-couple family with children includes only one worker, child-care expenses may not be an important issue. However, if these parents are required to increase their work effort substantially, they are likely to have to make some kind of arrangement for the care of their children. If relatives are available and willing to care for the children, this may not impose a financial burden on the family. However, if paid child care is required, the family faces an extra, mandatory expense that would not have been necessary if their work effort had not increased.[4] To explore this issue, we calculate the percentage of children in poor families whose working parents pay for child care and the ratio of those expenses to family income.

Health insurance

Historically, children whose families received public assistance were also eligible for health insurance from the Medicaid program. However, children in poor families whose parent rely primarily on earnings rather than assistance were not necessarily covered by either Medicaid or by health insurance provided by an employer. Although eligibility for Medicaid has been broadened and states are beginning to offer their own health insurance programs with federal assistance from the Child Health Insurance Program (CHIP), employers have continued to scale back health insurance coverage for their employees. To explore this issue, we contrast the percentage of children covered by health insurance in working poor families with the coverage rate of children in poor families not making a substantial work effort and other working families.

External circumstances

Another assumption implicit in the discussion above is that the level of work effort of the parents is under their own control. In a rapidly growing economy with a low rate of unemployment, it is relatively easy for a person with little education and few skills to obtain employment—at least at a low wage job. However, in a slowly growing economy or in an economy in recession, it may be much more difficult to find and keep a job and to work as many hours as the employee wishes. To explore this issue we have examined the relationship between work and poverty over the period 1987 through 1994, which includes a mild recession.

Defining the "working poor"

The existence of a substantial percentage of children who remain poor in spite of substantial work effort by their parents provides a possible model for what we can expect

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[4] Other work-related expenses include payroll and income taxes on earnings and commuting expenses.

when welfare families become working families.[5] However, there has been relatively little research focused on children in working poor families. Indeed, there is no generally accepted way of even defining them.

A recent study based on 1990 Census information (Kasarda, 1995) defined the working poor as persons working at least 27 weeks per year for at least 20 hours per week and living in poor families. According to this definition, Hispanics were substantially more likely to be working poor than men in other racial or ethnic groups, and, among women, blacks were the most likely to be working poor. The likelihood of falling into the working poor category declined sharply with education (*e.g.*, 8.7 percent for persons not completing high school compared with 3.8 percent for high school graduates and 1.2 percent for college graduates).

During the period 1979-1989, men with low levels of job skills have experienced "substantial real wage declines, and women who have not completed high school have experienced stagnant real wage rates (Blank and London, 1995). These trends have made it harder for less-skilled workers to escape poverty through work, and, by implication, have decreased the chances of escaping poverty for the children of these less-skilled workers.

These findings suggest that, when we focus on children (instead of the adults themselves), race/ethnicity and parental education will have a strong association with the likelihood of a child's being in a working poor family. However, because Kasarda is primarily interested in the characteristics and behavior of working adults, his analysis includes adults living alone and adults living in childless families along with adults with parental responsibilities. Moreover, his definition of working does not take into account the hours worked by a spouse or other adult members of the family. These additional hours may make a significant contribution to the total hours worked by adults in a family containing children.

The primary purpose of this paper is to develop a reasonable definition of working poor families and their children and to provide a baseline of information about them over the period 1987-1996, a period which encompasses both periods of growth and a recession.

We use this information to address four important issues introduced below.

Key questions addressed in this report

1. To what extent is being in a working family associated with a reduced likelihood of poverty for a child?

Welfare benefits have been set in all states at levels below the poverty threshold. In 1996, the annual AFDC benefit for a one-parent family of three persons in the median state was $4,668 per year, which was only 36 percent of the poverty line. If Food Stamp

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[5] Blank and London (1995) point out that "reforms designed primarily to increase work among low-income adults may also increase the number of working poor."

benefits are added, the combined benefits in the median state were $8,388 per year, which was 65 percent of the poverty line (U.S. Congress 1997). Even in the most generous state (Hawaii) combined benefits were 95 percent of the poverty threshold.[6] Consequently, nearly all families who rely on welfare (AFDC and Food Stamps) alone are poor.

Working can dramatically increase the likelihood that a family escapes poverty. For example, a parent who was paid $8.00 per hour in 1996 for a 40 hour week, 52 weeks per year, would have earned $16,640 per year, which exceeded the 1996 poverty threshold for a family of four.

To explore the effects of work, we will estimate the difference in the poverty rate for children in working families versus children in non-working families and how that difference varies depending upon family structure, parental education, and other key variables.

2. How common is it for children in poor families to have working parents?

Although working may reduce the likelihood of poverty, as we have seen, working is no guarantee of escaping poverty. We will estimate the percentage of children in poor families where the parents make a substantial work effort and how that percentage varies depending on family structure, parental education, and other key variables.

3. How are working poor families different from poor families not meeting the working standard?

To infer the likely behavior of families moving from welfare to work from the behavior of families who are already working poor, we must explore the differences between the behavior of poor families not meeting the working standard and working poor families. We will estimate differences between working poor families and poor families not meeting the working standard across a variety of dimensions including family structure, parental education, health insurance coverage and home and car ownership.

4. How are working poor families different from working, non-poor families?

Since the ultimate goal of welfare reform is to increase the likelihood of families escaping poverty through work, we must also look at the differences between working poor families and working families that are not poor. We will estimate differences between working poor families and working nonpoor families across a variety of dimensions including family structure, parental education, and average hourly wage.

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[6] However, Food Stamp benefits are not counted as income in determining if a family exceeds the poverty threshold.

Additional analyses

We also carry out two important extensions to this analysis. First, we examine in Chapter 6 the movements of children into and out of poverty and how that varies depending upon the working status of their parents. Second, we examine in Chapter 7 the sensitivity of our calculations to a change in our definition of poverty. More specifically, we develop an alternative definition of poverty that takes into account Food Stamp benefits, federal payroll and income taxes, and spending on child care.

Examining the movements of children into and out of poverty is important for at least two reasons. First, long-term poverty has been shown to have more negative effects on child development than a brief exposure to poverty.(Duncan and Brooks-Gunn, 1996). Second, looking at movements into and out of working poverty focuses attention on the fact that moving into the labor force or moving out of poverty is not a one-way street.

Examining the sensitivity of our results to the definition of poverty is important because the official definition of poverty has some serious limitations for a study focused on the working poor. First, the official definition of poverty includes in a family's economic resources only money income before taxes. Thus, the official definition excludes non-cash transfers such as Food Stamps and the refundable portion of the Earned Income Tax Credit (EITC). Second, the official definition of poverty does not deduct from a family's economic resources work-related expenses such as federal payroll and income taxes applied to earnings and child-care expenses.[7]

Low-income families relying primarily on public assistance are more likely than other families with children to be receiving non-cash transfers. They are also less likely to have significant work-related expenses since their earnings and hours of work are either limited or zero. In contrast, low-income families relying primarily on earnings are less likely to be receiving non-cash transfers and more likely to be paying payroll taxes and other work-related expenses such as child care and commuting costs. On the other hand, low-income families relying primarily on earnings are more likely to qualify for the EITC, which has been made increasingly generous over the past ten years. Thus, they may receive a refundable tax credit from the federal government which, in recent years, may be a significant source of income not counted by the official definition of poverty.

In short, there are federal tax and transfer programs that are a significant economic resource to low-income families and that affect families relying primarily on public assistance quite differently than they affect families relying primarily on earnings. Yet, the official definition of poverty fails to take these programs into account. The analysis in Chapter 7 explores how the findings of the study are affected by taking some of the most important of these programs into account.

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[7] There are many other problems with official poverty definition. They will be discussed elsewhere in this report.

Previous Studies

Previous studies of the working poor have not agreed on how to define "working poor." Because working is an attribute generally associated with a person, while poverty is defined to be an attribute associated with families or households, some researchers have developed both a person-based definition and a definition that combines person and family attributes. For example, a study focused on the causes of workers having low annual earnings defined "low earners" as household heads whose weekly earnings were low enough that working full-year would not generate annual earnings above the poverty line for a family of four (Danziger and Gottschalk 1986). They then went on to define working poor households as households with total annual income below the poverty line and headed by a low earner.

A more recent study that focused on changes in the working poor between 1980 and 1990 defined "poverty-wage workers" as full-time, full-year workers (regardless of whether they headed a household) whose actual annual earnings did not exceed the poverty line for a family of four (Kasarda 1995). He then went on to define the working poor as persons who have worked for at least 27 weeks for at least 20 hours per week, and who lived in families with annual incomes below the poverty line.

Two recent studies (Levitan, Gallo, and Shapiro 1993; Blank and London 1995) distinguish the "full-time working poor" (persons as workers employed full-time, full-year but living in families with annual incomes below the poverty line) from the "part-time working poor" (persons working less than full-time, full-year and living in families with incomes below the poverty line).

Since 1989, the Bureau of Labor Statistics (BLS) has defined the working poor as persons devoting at least half a year working or looking for work and who lived in families below the poverty level (Klein and Rones 1989; Gardner and Herz 1992; U.S. Bureau of Labor Statistics 1997). A more stringent variant of this approach is provided in a recent set of guidelines issued by the Center on Budget and Policy Priorities (CBPP), which defined the working poor as families whose income is below the poverty line and whose total parental work effort was at least 520 hours per year (Lazere 1997). More recently, CBPP has used a still more stringent work standard—at least one half-time worker (CBPP, 1998).

A panel of experts convened by the Foundation for Child Development (FCD) reached a consensus on a family-based definition. Working poor families were defined as those families with incomes below the poverty line and a family work effort equal to the equivalent of one person working full-time for two-parent families and half-time work for single-parent families (Smith 1997). (Ultimately, this concept evolved into the definition used in this study, as described in Chapter 2.)

While all the definitions employing family income used the official poverty line to designate workers as poor, there was enormous variation in the threshold for counting a person as working. The BLS definition includes persons who did not actually work at all

as long as they looked for work for at least six months. At the other extreme, the Levitan, et al., full-time working poor definition requires full-time, full-year employment.

The primary focus of nearly all the studies listed above is the workers themselves. Some of the studies provide family-based tabulations as well, but only two (the BLS studies and Blank and London) include the presence of children as one of the family attributes tabulated. None of the studies provides any accounting of the number of children living in working poor families--how ever such families are defined.

Chapter 2. Defining working poor families

Like the studies described in Chapter 1, this study focuses *primarily* on the official definition of poverty in determining whether a family unit is poor. This concept has two important problems in comparing working poor families with poor families not meeting the working standard. Because the official poverty line is based on cash income, it does not count non-cash benefits such as Food Stamps, housing assistance and Medicaid, all three of which are more likely to be received by poor families not meeting the working standard than by working poor families. Moreover, it takes no account of work-related expenses such as federal income and payroll taxes, child-care expenses and commuting, both of which are more likely to be paid by working families than by families not meeting the working standard.

Because of these problems, some working families will be counted as nonpoor even though they might be below the poverty threshold if their work-related expenses were deducted. On the other hand, some families not meeting the working standard will be counted as poor even though they would be above the poverty threshold if their non-cash transfers were counted as part of income. Thus, a two-parent family of four with a $16,000 income and one stay-at-home parent is considered poor, while a two-parent family of four with a $22,000 income, two working parents, and $6,000 of work-related expenses is not.

A recent study carried about the National Research Council proposed a new definition of poverty that would address both these and other problems with the current definition of poverty (National Research Council, 1995). However, so far, estimates of poverty that implement features of the NRC definition have been labeled as "experimental," and both technical and political barriers stand in the way of implementation of the NRC proposal.[8] Therefore, this paper relies primarily on the standard rather than the experimental definitions.

However, we have devoted Chapter 7 to alternative definitions of poverty that take into account the fact that families with working parents are subject to payroll taxes and possibly federal income taxes that parents not meeting the work standard escape and are more likely than parents not meeting the work standard to have child-care expenses. This alternative measure also takes into account the dollar value of Food Stamp benefits (a non-cash benefit that is a very close substitute for cash) and the Earned Income Tax Credit (EITC), which in recent years may have more than offset the payroll taxes paid of families with earnings.

Since poverty is defined based on annual income, we are measuring work effort as total hours worked per year. Because our study is focused on children, it is desirable that we

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[8] Several detailed studies employing experimental definitions of poverty can be found on the U.S. Census Bureau's web site at *http://www.census.gov*.

use a family-based definition of work effort. Consequently, for two-parent families, we add together the hours worked per year by both parents.

Setting the threshold for counting the family as a working family is a normative decision (which may account for the wide range of definitions in the literature reviewed in the previous chapter). Since the working poor have become an object of increasing attention due primarily to welfare reform and its focus on encouraging increased work effort, we based our definition on the work requirement imposed upon states by PRWORA. The work required of single-parent families with children under age 6 is 20 hours per week, while the work required of two-parent families is 35 hours per week. We have translated this into an annual work requirement of 1,820 hours per year for two-parent families and 1,040 hours per year for single-parent families. Thus, any family with at least this many hours of work during a calendar year is defined as working.

This definition, thus, has the advantage of being based on the view of the Congress and President as to what constitutes a reasonable work effort and is also consistent with consensus view of the panel of experts convened by the Foundation for Child Development (see Chapter 1). Indeed, recent media coverage has noted which states have met the 1997 requirement that 25 percent of all welfare families in a state meet the PRWORA work requirement (Pear, 1998).

Chapter 3. Data and Methods

Data: Survey of Income and Program Participation and the Current Population Survey

We have chosen the 1987, 1988, and 1990 through 1993 panels of the Survey of Income and Program Participation (SIPP) as the primary data source for this study. This provides nearly complete coverage of the 1987-1994 period since the 1993 SIPP panel provides information for both 1993 and 1994.

In an effort to provide more current information, we have also used the March Current Population Survey (CPS) for 1996 and 1997. Since the Current Population Survey (CPS), not SIPP, is the source generally used to produce the official poverty statistics, our results for 1987-1994 differ somewhat from what would have been obtained from the CPS. This chapter describes some of the key features, the strengths, and the limitations of both SIPP and the CPS.

Both SIPP and the CPS are designed to produce estimates that are representative of the entire U.S. population. In an attempt to get more accurate estimates of both income and participation in government programs, members of each SIPP panel are interviewed once every four months for at least one year and, for most SIPP panels, for at least two calendar years. At each interview, highly detailed information about employment, income, and program participation is gathered for each of the four preceding months for each member of the household unit. These monthly longitudinal data are supplemented with data collected once or twice per panel on specific topics including child care, asset ownership, and labor force history.

In contrast, the CPS, in its March supplement, collects data on income by source and annual weeks of employment for the preceding calendar year, and collects both demographic information and current employment information for the week of the survey. Hence, information on family composition and data on work and employment focus on different time periods. Moreover, the CPS requires respondents to recall information from a more distant past.

SIPP's greatest strength is its intensive effort to obtain detailed income and employment data on a monthly basis from successive interviews four months apart. This should increase the likelihood of comprehensive and accurate recall of this critical information.

On the other hand, the sample size of SIPP varies from panel to panel, and it is always smaller than the sample of the CPS. This leads to larger standard errors than those obtained from the CPS. In addition, the longitudinal design of SIPP makes it vulnerable to attrition bias. Members of the sample are lost with each successive wave of interviews, and there is evidence that the sample members lost may differ in systematic ways from the sample members who are retained (Huggins, et al. 1995). More specifically, the retained sample members have higher incomes in their first interview than the sample members who are not interviewed in subsequent waves.

Certain design features of SIPP make explicit problems which are only implicit in an essentially cross-section survey such as the CPS. Because members of each household are interviewed three times per year, it is possible to learn about changes in family composition that occur over the course of a year. For example, if a husband and wife divorce during the course of a year, one family can split into two families.

Because families and households are not necessarily stable over time, SIPP is organized around persons and, unlike the CPS, is not organized in a hierarchical structure with household, family, and person records. Connections with other members of the family and household are maintained by a set of cross-references that are free to change from one interview to the next. Information collected at the family level (*e.g.*, family income) is, nevertheless, recorded as a person-level variable.

Like families, persons can also appear and disappear. A baby born in February 1993 is not present during the first set of interviews for the 1993 SIPP panel but is present subsequently. Persons who are present for the first interview can disappear at any time during the period covered by the SIPP interviews (typically 30 months) either because they have died or because interviewers have been unable to obtain information about them in subsequent interviews.

Finally, even though persons are interviewed every four months, for many questions, the interviewees are asked for monthly data. Thus, detailed income and employment data are recorded on a monthly basis for all 12 months in a calendar year.

We discuss next how we handled these complexities.

Methods

We have designed our analysis to address the issues raised in Chapter 1. Thus, the cross-tabulations of SIPP and the CPS presented in this report consist of the percentages of various segments of the population with specific combinations of characteristics, *e.g.*, among children living in families below the poverty line, the percentage whose parent(s) meet the TANF work standard, by family structure.

Because the primary focus of this study is on children, the basic unit of analysis of the study is the child rather than the family. This approach is also consistent with SIPP's organization around persons rather than families. Thus, rather than tabulate the number of working poor families, we tabulate the number of children living in working poor families.

For each year's SIPP analysis, the persons included in our sample universe are those who were living as of January of that year and for whom there is complete information for the entire calendar year. We use a corresponding sample weight constructed by the Census Bureau for the purpose of making the sample representative of the U.S. population for that year. We classify a person as a child if they were less than 18 years old as of January of that year.

For each year's CPS analysis, the children included in our sample universe are those who are at least one year old and less than 19 years old as of the survey date (March). This is a close approximation to those who were ages zero to 18 in the previous year—the year for which the income and employment data were collected.

As stated earlier, information on annual family income (which is required for determining if a family is above or below the poverty threshold) is reported directly in the CPS. Poverty status is calculated by comparing annual family income with the poverty threshold for the family as structured at the time of the March interview.

With SIPP calculating family income and poverty status is more complex. To calculate family income for a child using SIPP, we add up the child's family income for all 12 calendar months, regardless of changes in family structure. For example, if a child's mother and father separated and formed separate households at the end of June and the child resided with the mother only thereafter, only the income of the mother and other members of that newly defined family would be included for July through December. However, income of both parents would be counted for January through June.

To calculate the poverty status of the child, we compare the annual family income with the *average* poverty threshold over the course the year. This calculation takes into account any changes in the threshold associated with changes in the size of the family over the course of the year.

Using a technique suggested by the Bureau of the Census (U.S. Bureau of the Census, 1996), we have estimated standard errors for all tabulated statistics. The Census technique takes into account the fact that both SIPP and the CPS use a clustered sample design that produces less variation across observations than a purely random sample would have produced. Thus, the estimates of the standard errors produced by this technique are higher than would have been produced had we used an estimation procedure that assumed a purely random sample.

These standard errors can be used to test the statistical significance of differences in percentages between two groups. For example, we can determine if the difference between the poverty rate of children in single-mother and two-parent working families is statistically significant. Generally, whenever we draw attention to a difference in percentages in our discussion, the difference is statistically significant at the .10 level or better.[9]

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[9] This .10 threshold is also used by the U.S. Bureau of the Census in its publications on poverty.

Chapter 4. Results for 1987-1994 using SIPP

We focus in this chapter on addressing the four key issues raised in Chapter 1:

- To what extent does being in a working family reduce the likelihood of poverty for a child?
- How common is it for children in poor families to have working parents?
- How are working poor families different from non-working, poor families?
- How are working poor families different from working, non-poor families?

Results are presented for 1987, 1988, and 1990 through 1994—the years covered by the 1987, 1988, and 1990 through 1993 SIPP panels. Results for 1995 and 1996 from the Current Population Survey are presented in Chapter 5.

To what extent does being in a working family reduce the likelihood of poverty for a child?

Tables 4.1 - 4.3 address this question. As we shall see below, children are much less likely to be poor if they are living in a *working* family, that is, a one-parent family in which the parent worked at least 1,040 hours or a two-parent family in which the parents' hours totaled at least 1,820 hours. We begin by grouping all children together and assessing the magnitude of the negative association between working and child poverty. Then we successively segment children by other key characteristics, including family structure, race/ethnicity, parental education, and parental occupation.

As shown in Table 4.1, according to 1994 estimates from the 1993 SIPP panel, about 22 percent of all children (about 15.1 million) lived in families whose incomes were below the official poverty threshold. However, among children living in families meeting the working threshold, only about 8 percent were poor. In contrast, among children in families not meeting the working standard, about 70 percent were poor. *Thus, in 1994, children living in families not meeting the working standard were more than eight times as likely to be poor as children living in working families.* Moreover, this finding is consistent throughout the 1987-1994 period.

However, over the 1987-1994 period, among children living in families meeting the working threshold, the likelihood of being poor rose from 6.5 percent to 8.2 percent, a statistically significant[10] increase. Thus, belonging to a working family was somewhat less of a guarantee of escaping poverty in 1994 than in 1987.

Differences by family structure.

Working also reduces the likelihood of poverty when children in married-couple families are considered separately from those in single-mother families. In 1994, about 12 percent

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[10] All tests of statistical significance are at the .10 level.

Table 4.1. Number of children (thousands) living in poor families and as a percentage of all children by family structure and whether hours worked by parents met the work standard, 1987-1994

	1987	1988	1989	1990	1991	1992	1993	1994
All families	11,237	10,624	na	10,904	12,675	12,858	15,097	15,118
Working	3,345	3,476	na	3,828	4,331	3,963	4,276	4,489
Not meeting work std	7,892	7,148	na	7,076	8,344	8,895	10,821	10,630
Married-couple families	4,757	4,042	na	4,367	4,833	4,813	5,795	6,168
Working	2,153	2,089	na	2,425	2,453	2,209	2,535	2,640
Not meeting work std	2,604	1,953	na	1,943	2,380	2,603	3,260	3,527
Single-mother families	5,950	6,073	na	5,792	7,156	7,026	8,143	7,663
Working	1,128	1,363	na	1,340	1,688	1,567	1,577	1,672
Not meeting work std	4,822	4,710	na	4,452	5,468	5,460	6,566	5,991

	1987	1988	1989	1990	1991	1992	1993	1994
All families	18%	17%	na	17%	19%	19%	22%	22%
Working	7%	7%	na	7%	8%	7%	8%	8%
Not meeting work std	70%	67%	na	67%	67%	69%	71%	70%
Married-couple families	10%	8%	na	9%	10%	10%	12%	12%
Working	5%	5%	na	5%	5%	5%	6%	6%
Not meeting work std	57%	45%	na	51%	49%	54%	62%	63%
Single-mother families	45%	47%	na	46%	50%	48%	53%	48%
Working	16%	19%	na	19%	23%	20%	21%	20%
Not meeting work std	79%	81%	na	82%	79%	78%	83%	81%

Note: Data source is the Survey of Income of Program Participation. In all years except 1994, results are based on first-year responses. Comparable data for 1989 was not available (na) from SIPP.

of children in married-couple families were poor (about 6.2 million). However, among children living in married-couple families meeting the working threshold, only about 6 percent were poor. In contrast, among children in married-couple families not meeting the work standard, about 63 percent were poor. *Thus, children living in married-couple families not meeting the work standard were about ten times as likely to be poor as children living in working, married-couple families.* This finding is also consistent throughout the 1987-1994 period. There was no statistically significant change in the likelihood of being poor for either the working group of married couples or the married couple not meeting the work standard.

A much higher proportion of children in single-mother families were poor, 48 percent in 1994 (about 7.7 million). However, among children living in single-mother families meeting the working threshold, only about 20 percent were poor. In contrast, among children in single-mother families not meeting the work standard, about 81 percent were poor. *Thus, children living in single-mother families not meeting the work standard were about four times as likely to be poor as children living in working, single-mother families.*

This finding too is consistent throughout the 1987-1994 period. There was no statistically significant change in the likelihood of being poor for either the working group or group not meeting the work standard.

One important reason why the reduction in the likelihood of poverty is less for single-parent families than for married-couple families is the definition of working we have chosen. We consider a single-parent family as meeting the working criterion if the parent works about half-time. For two-parent families, the threshold is the equivalent of full-time work for one parent. And of course, at any given wage rate, working full-time generates more income than working between half-time and full-time.

Table 4.2. Percentage of children living in poor families, by race/ethnicity and whether hours worked by parent(s) met the work standard, 1987-1994

	1987	1988	1989	1990	1991	1992	1993	1994
White, non-Hispanic								
Working	4%	4%	na	4%	5%	5%	5%	5%
Not meeting work std	55%	49%	na	55%	52%	52%	60%	58%
Black, non-Hispanic								
Working	19%	16%	na	19%	17%	13%	18%	15%
Not meeting work std	80%	82%	na	80%	84%	79%	80%	83%
Asian, non-Hispanic								
Working	8%	4%	na	7%	3%	5%	6%	4%
Not meeting work std	60%	45%	na	65%	65%	63%	73%	81%
Hispanic								
Working	16%	15%	na	16%	20%	18%	22%	20%
Not meeting work std	77%	72%	na	75%	75%	75%	81%	82%

Note: Data source is the Survey of Income of Program Participation. In all years except 1994, results are based on first-year responses. Comparable data for 1989 was not available (na) from SIPP.

Differences by race/ethnicity.

As shown in Table 4.2, black non-Hispanic and Hispanic children have significantly higher likelihoods of poverty than white non-Hispanics, regardless of their parents' working status. Nevertheless, working reduces the likelihood of poverty regardless of children's race or ethnicity.[11] However, the reduction is much smaller for black and Hispanic children. For white, non-Hispanic children the likelihood of poverty is at least 10 times as high for families not meeting the working standard (about 58 percent in 1994) than for working families (about 5 percent in 1994). In most years, this is also true for

[11] In 1994 only, the likelihood of poverty for Asian non-Hispanic children in working families was also statistically significantly higher than for comparable white non-Hispanic children.

non-Hispanic, Asian children.[12] Belonging to a working family reduces the likelihood of poverty for non-Hispanic, black children and for Hispanic children as well, though the difference is smaller than among white non-Hispanics. For children in both of these groups, the likelihood of poverty is at least four times as high for families not meeting the working standard than for working families. These results are also consistent over the 1987-1994 period.

Over the 1987-1994 period, the likelihood of being poor among white children living in families meeting the working threshold rose from 4 percent to 5 percent, a statistically significant increase. Thus, for a white, non-Hispanic child, belonging to a working family was less of a guarantee of escaping poverty in 1994 than in 1987. For the other groups, there was no statistically significant change in the likelihood of poverty for either working or non-working families.

Differences by parental education.

As shown in Table 4.3, children living in families in which the better educated parent has completed at least 12 years of education have a significantly lower likelihood of poverty

Table 4.3. Percentage of children living in poor families, by whether the hours worked by parent(s) met the work standard, family structure, and the educational attainment of better educated parent, 1987-1994

	1987	1988	1989	1990	1991	1992	1993	1994
Working								
Married-couple								
Less than 12 years	19%	20%	na	21%	24%	23%	23%	23%
12 years	7%	6%	na	7%	7%	7%	9%	9%
13-15 years	3%	3%	na	4%	3%	3%	4%	3%
At least 16 years	1%	1%	na	1%	2%	1%	1%	2%
Single-mother								
Less than 12 years	34%	40%	na	29%	44%	40%	44%	36%
12 years	20%	22%	na	23%	25%	27%	23%	25%
13-15 years	7%	7%	na	15%	15%	10%	15%	14%
At least 16 years	0%	10%	na	4%	7%	1%	5%	4%
Not meeting work standard								
Married-couple								
Less than 12 years	74%	50%	na	60%	62%	65%	78%	77%
12 years	43%	50%	na	53%	57%	56%	62%	60%
13-15 years	50%	42%	na	42%	42%	45%	55%	61%
At least 16 years	28%	26%	na	27%	32%	25%	32%	31%
Single-mother								
Less than 12 years	85%	86%	na	87%	84%	84%	88%	88%
12 years	71%	83%	na	81%	79%	77%	82%	78%
13-15 years	77%	66%	na	80%	73%	68%	83%	77%
At least 16 years	nc	nc	na	nc	51%	63%	24%	34%

Note: Data source is the Survey of Income and Program Participation. In all years except 1994, results are based on first-year responses. Comparable data for 1989 was not available (na) from SIPP. Percentage not calulated (nc) if denominator did not exceed 200,000 persons.

[12] Estimates are considerably less precise for Asian children due to small sample size.

than children living in families in which the better educated parent did not complete 12 years of education. This is true regardless of family structure and the working status of the family. For example, in 1994, children living in working, married-couple families in which the better educated parent had completed at least 16 years of education had a poverty rate of 2 percent, compared with 9 percent for comparable families in which the better educated parent had completed 12 years of education, and 23 percent for comparable families in which the better educated parent had completed fewer than 12 years of education.

Although the likelihood of poverty is higher for children in single-mother, working families than in married-couple families, the relationship between education and the likelihood of poverty is the same within each group. Likewise, within families not meeting the working standard (both married-couple and single-mother), the likelihood of poverty falls as the education of the better-educated parent increases.

Within education and family structure categories, working still reduces the likelihood of being poor. For example, for children in married-couple families in which the better educated parent had completed fewer than 12 years of education, the likelihood of poverty was 23 percent in 1994 for working families but 77 percent for families not meeting the working standard. For children in married-couple families in which the better educated parent had completed 16 years of education, the likelihood of poverty was 2 percent but 31 percent for comparable families not meeting the working standard. There are similar significant differences for children in single-mother families.

We earlier showed that there was no significant increase between 1987 and 1994 in the likelihood of poverty for children in married-couple or single-mother families, regardless of working status. Howver, when we examine these groups separately by educational attainment, there was a significant increase in the likelihood of poverty for children in married-couple, working families (23 percent in 1994 compared with 19 percent in 1987 if the better educated parent completed fewer than 12 years and 9 percent compared with 7 percent if the better educated parent completed 12 years). This may reflect the fall in real wage rates for less well-educated persons over this period. However, for children in single-parent, working families, there was a significant increase in the likelihood of poverty for all but the lowest education category.

For children in married-couple families *not* meeting the work standard, the likelihood of poverty significantly increased for those whose better educated parent had either 12 years or 13-15 years of education. For children in single-parent families not meeting the work standard, the likelihood of poverty significantly increased only for those whose parent had 12 years of education.

How common is it for children in poor families to have working parents?

Tables 4.4 and 4.5 address this issue. As we have seen, living in a working family substantially reduces the likelihood of a child being poor. Nonetheless, many children live in poor families that meet the working standard.

As shown in the top panel of Table 4.4, in 1994, about 30 percent of all poor children lived in families that met the working standard. While this percentage consistently exceeded 28 percent, it was significantly higher in 1990 (35 percent), as the U.S. was

Table 4.4. Among children living in poor families, the percentage whose parent(s) met the work standard, by race/ethnicity and family structure, 1987-1994

All races/ethnicities	1987	1988	1989	1990	1991	1992	1993	1994
All types of families	30%	33%	na	35%	34%	31%	28%	30%
Married couple families	45%	52%	na	56%	51%	46%	44%	43%
Single mother families	19%	22%	na	23%	24%	22%	19%	22%
White non-Hispanic								
All types of families	35%	41%	na	38%	41%	38%	33%	36%
Married couple families	45%	54%	na	54%	56%	49%	43%	46%
Single mother families	25%	31%	na	27%	30%	31%	27%	31%
Black non-Hispanic								
All types of families	25%	21%	na	31%	26%	20%	23%	22%
Married couple families	48%	47%	na	63%	47%	26%	36%	29%
Single mother families	17%	18%	na	23%	21%	18%	20%	22%
Asian non-Hispanic								
All types of families[a]	34%	27%	na	26%	16%	23%	16%	11%
Hispanic								
All types of families	29%	39%	na	37%	36%	33%	30%	31%
Married couple families	46%	50%	na	59%	50%	51%	55%	51%
Single mother families	16%	25%	na	18%	21%	20%	12%	13%

Note: Data source is the Survey of Income of Program Participation. In all years except 1994, results are based on first-year responses. Comparable data for 1989 was not available (na) from SIPP.
[a]Standard errors for this group are large. Therefore, point estimates are not highly reliable.

entering a recession, than it was in either 1987 or 1994.

Differences by family structure and race/ethnicity.

Among children in poor, married-couple families, the percentage whose parents met the working standard was nearly 43 percent in 1994, and consistently equaled or exceeded that level over the entire 1987-1994 period. In 1990, over 55 percent of children in poor, married-couple families had parents who met the working standard--significantly higher than in either 1987 or 1994. One reason for this is that, compared with nonpoor working families, working poor families, even though they supply at least the equivalent of one full-time worker, have relatively few hours supplied by the wife. In 1994, wives in working poor families supplied less than 25 percent of the family hours worked in 57 percent of all families. By contrast, wives in nonpoor working families supplied less than 25 percent of the family hours worked in only 34 percent of all families.

Having a parent who meets the working standard is significantly less common for children in poor, single-mother families even though the working standard is only half-time. In 1994, about 22 percent of children in poor, single-mother families had a parent

who worked at least half-time. Over the entire 1987-1994 period, this percentage varied between about 19 percent and about 24 percent.

In 1994, children in poor, white non-Hispanic families were significantly more likely to live in working families than black non-Hispanic children (including both married-couple and single-parent families) and Asian non-Hispanic children.[13] Children in poor, white non-Hispanic, single-mother families were significantly more likely to have a working parent than children in poor, Hispanic, single-mother families.

Differences by parental education.

As shown in Table 4.5, the generalization that children in poor married-couple families were more likely to contain a working parent than children in single-parent families continues to hold true within categories of educational attainment of the better educated parent. For example, in 1994, restricting our attention to children whose better educated parent had fewer than 12 years of education, 37 percent of children in married-couple, poor families had parents meeting the working standard, compared with 13 percent of children in single-mother poor families.

Table 4.5. Among children living in poor families, the percentage whose parent(s) met the work standard, by family structure and parental education, 1987-1994

	1987	1988	1989	1990	1991	1992	1993	1994
Married-couple								
Less than 12 years	30.7%	53.6%	na	49.6%	47.7%	43.0%	37.8%	36.8%
12 years	61.3%	51.4%	na	54.8%	51.0%	43.2%	47.4%	50.7%
13-15 years	47.7%	53.1%	na	66.2%	50.3%	51.5%	46.3%	32.5%
At least 16 years	61.8%	37.5%	na	60.3%	63.1%	59.6%	43.2%	59.4%
Single-mother								
Less than 12 years	14.5%	16.6%	na	13.1%	16.0%	15.4%	14.0%	12.8%
12 years	25.9%	31.8%	na	31.7%	31.8%	31.5%	23.3%	29.8%
13-15 years	17.5%	17.7%	na	30.7%	28.8%	21.3%	23.0%	27.7%
At least 16 years	nc	nc	na	nc	30.2%	nc	nc	nc

Note: Source is the Survey of Income of Program Participation. In all years except 1994, results are based on first-year responses. Comparable data for 1989 was not available (na) from SIPP. Percentage not calulated (nc) if denominator did not exceed 200,000 persons.

For children living in poor, single-mother families, children whose mothers had less than 12 years of education were significantly less likely to live in working families than children in poor, single-mother families whose mother had 12 years or more of education. For example, in 1994, the percentages in working families were 13 percent if the mother had fewer than 12 years of education and 30 percent if the mother had 12 years of education. However, there was no comparable difference for children in poor, married-couple families.

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[13] Statistics on poor, non-Hispanic Asian children could not be presented by family structure due to the small sample size.

How are the circumstances of children in working poor families different from those in poor families not meeting the work standard?

The left and center columns of Tables 4.6 and 4.7 address this question.

As shown in Table 4.6, children in working poor families are likely to have two parents. While half of children in working poor families live with two parents (50 percent), a majority of children in poor families not meeting the working standard live with a single parent-- 56 percent with a single mother, and 2 percent with a single father.

Patterns by race/ethnicity.

In 1994, white non-Hispanic children, who accounted for 67 percent of all children in the U.S. in 1994,[14] made up 47 percent of children in working poor families and 35 percent of

Table 4.6. Distribution of children in nonworking poor, working poor, and working nonpoor families by family structure, by race/ethnicity, parental education, and average hourly wage rate, 1994

	Poor not meeting work standard	Working Poor	Working Nonpoor
Family structure			
Married-couple	33%	59%	84%
Single-mother	56%	37%	13%
Single-father	2%	4%	2%
Other	9%	0%	1%
Race/ethnicity			
White non-Hispanic	35%	47%	75%
Black non-Hispanic	32%	21%	10%
Asian non-Hispanic	7%	2%	4%
Hispanic	27%	29%	10%
Family structure and parental education			
Married and education less than 12 years	41%	32%	7%
Single mother and education less than 12 years	51%	27%	12%
Family structure and average hourly wage rate			
Married			
Less than $5 per hour	36%	24%	1%
$5 - $6.99 per hour	30%	42%	4%
$7 - $9.99 per hour	26%	26%	14%
At least $10 per hour	9%	8%	81%
Single mother			
Less than $5 per hour	53%	29%	4%
$5 - $6.99 per hour	27%	42%	12%
$7 - $9.99 per hour	11%	25%	29%
At least $10 per hour	9%	4%	55%

Note: Source is 1993 Survey of Income of Program Participation, second year responses.

[14] Statistics for all children are not shown in Table 4.6.

children in poor families not meeting the working standard. Thus, white non-Hispanic children are underrepresented among *working* poor families and even more underrepresented among *poor families not meeting the working standard.*

Black non-Hispanic children, who accounted for 15 percent of all children in the U.S. in 1994, made up 1 percent of children in working poor families and 32 percent of children in poor families not meeting the working standard. Thus, black non-Hispanic children were overrepresented among working poor families and even more overrepresented among poor families not meeting the working standard.

There was no significant change in black non-Hispanic children's share of the overall child population. However, their share of children in working poor families dropped significantly from 32 percent to 21 percent between 1987 and 1994, while their share of poor families not meeting the working standard declined significantly from 40 percent to 32 percent during the same period (not shown). Thus, there was a movement into the working nonpoor between 1987 and 1994.

Asian non-Hispanic children, who accounted for 4 percent of all children in the U.S., made up 1.6 percent of children in working poor families and 7 percent of children in poor families not meeting the working standard. Thus, Asian non-Hispanic children were underrepresented among the working poor and overrepresented among poor families not meeting the working standard. Moreover, Asian non-Hispanic children's share of children in poor families not meeting the working standard more than doubled from 3 percent to nearly 7 percent between 1987 and 1994.

Finally, Hispanic children, who accounted for 14 percent of all children, made up 29 percent of children in working poor families and 27 percent of children in poor families not meeting the working standard. Thus, Hispanic children are roughly equally overrepresented among both working and poor families not meeting the working standard.

Patterns by family structure and parental education.

Next, we compare the educational attainment of parents of children in working poor and poor families not meeting the working standard. The educational attainment of the better educated parent in working poor, married-couple families is not significantly different from the comparable parent in poor, married-couple families not meeting the work standard.

In contrast, single mothers in working poor families were significantly more likely to have completed at least 12 years of education than single mothers in poor families not meeting the work standard. For example, as shown in Table 4.6, in 1994, 27 percent of children in working poor families headed by a single mother had failed to complete 12 years of education. In contrast, 51 percent of the single mothers of children in poor families not meeting the working standard had failed to complete a high school education. This difference is statistically significant. Moreover, among single mothers of children in working poor families, there has been a statistically significant increase in the

percentage that have attended college from 12 percent in 1987 to 24 percent in 1994 (not shown).

Patterns by parental wage rate.

Now, we compare the wage rate of parents of children in working poor and poor families not meeting the working standard. In both working and poor families not meeting the working standard, the average hourly wage rate[15] of the higher earning parent was consistently below $7.00 per hour for a majority of all children during the 1987-1994 period. However, as shown in Table 4.6, for children in married-couple, poor families, the higher paid parent in *working* families was better paid than in *families not meeting the working standard* (24 percent and 36 percent, respectively, earned less than $5.00 per hour).[16,17] A similar pattern is found for single mothers.

Patterns of transfer receipt, health insurance coverage, ownership of a house and car, and participation in paid child care.

As shown in the left and center columns of Table 4.7, children in working poor families were significantly less likely than children in poor families not meeting the working standard to receive AFDC or Food Stamp benefits regardless of family structure. In 1994, among children in single mother families, 36 percent of children in working poor families received AFDC at some time during the year, compared with 84 percent of children in poor families not meeting the working standard. For Food Stamps, the comparable recipiency rates are 81 percent and 94 percent, respectively.

On the other hand, children in working poor families were less likely than children in poor families not meeting the working standard to be covered by health insurance. In 1994, 74 percent of children in single-parent, working poor families were covered by health insurance, compared with 94 percent of children in single-parent, poor families not meeting the working standard.

Although insurance coverage in married-couple families was significantly lower for both working and poor families not meeting the working standard, a similar difference between children in working and families not meeting the working standard was evident. In 1994, 58 percent of children in married-couple, working poor families were covered by health insurance, compared with 74 percent of children in married-couple, poor families not meeting the working standard.

For children in poor, married-couple families, home ownership rates were twice as high for working families were higher than for families not meeting the working standard, but

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15 The average hourly wage rate of each parent was calculated by dividing their annual earnings (in 1996 dollars) by their hours worked per year.

16 However, in all other years, the difference, although consistently in the same direction, was not statistically significant.

17 We are counting only those families in which at least one parent had earnings.

there was no significant difference in home ownership for children in poor single-parent families. In 1994, 45 percent of children in married-couple, working poor families lived in owner-occupied houses. The corresponding rate for children in married-couple, poor families not meeting the working standard was 22 percent.

Rates of car ownership were significantly higher for children in working poor families than for children in poor families not meeting the working standard for both married-couple and single-parent families. Among married-couple families the rates were 85 percent and 70 percent, respectively. Among single-parent families the corresponding rates were 63 percent and 30 percent, respectively.

Children in both married-couple and single-parent working poor families were more likely to be in paid child care than children in poor families not meeting the work standard. Among married-couple families, the rates were 8 percent and 4 percent, respectively. Among single-parent families, the corresponding rates were 26 percent and 9 percent, respectively.

How are children in working poor families different from those in working, nonpoor families?

The center and right columns of Tables 4.6 and 4.7 address this question. Although a majority of children in both working poor families and working nonpoor families live

Table 4.7. Children in nonworking poor, working poor, and working nonpoor families, by famil structure, by receipt of AFDC[a] and Food Stamps,[a] health insurance coverage, home ownership,[b] and auto ownership,[b] 1994

	Poor not meeting work standard	Working Poor	Working Nonpoor
Married-couple families			
Received AFDC	54%	5%	2%
Received Food Stamps	81%	48%	5%
Health insurance coverage	74%	58%	90%
Home ownership	22%	45%	77%
Auto ownership	70%	85%	98%
Paid child care	4%	8%	37%
Single-mother families			
Received AFDC	84%	36%	12%
Received Food Stamps	94%	81%	20%
Health insurance coverage	94%	73%	85%
Home ownership	16%	20%	46%
Auto ownership	30%	63%	84%
Paid child care	9%	26%	47%

Note: Source is the 1993 Survey of Income of Program Participation, second year responses
[a]Receipt of this transfer payment at any time during the calendar year.
[b]Ownership is measured for any member of the family as of the first interview of the year.

with two parents, children in working poor families are significantly less likely to do so.

For example, as shown in Table 4.6, 59 percent of children living in working poor families lived with both parents in 1994, while 37 percent lived with a single mother, and 4 percent lived with a single father.

In contrast, 85 percent of children living in working nonpoor families lived with both parents, while only 14 percent lived with a single mother, and 2 percent with a single father. The differences in family structure between working poor and working nonpoor families are statistically significant for both married-couple and single-mother families.

Patterns by family structure and parental education.

There are substantial differences in the education of the better educated parent of children in working poor families compared with working nonpoor families, regardless of family structure. In 1994, 32 percent of the better educated parents of children in working, married-couple, poor families had not completed a high school education. In contrast, only 7 percent of the better-educated parents of children in working nonpoor families had failed to complete a high school education. For children in families headed by a single mother, the difference was also substantial--27 percent for working poor families versus 12 percent for working non-poor families.

At the other end of the education spectrum, the differences are just as substantial,[18] with children in working poor families (married or single-mother) significantly less likely to have a parent with either some college or four or more years of college.

Patterns by parental wage rate.

There are similar differences for average hourly wage rates. For the overwhelming majority of children in married-couple, working poor families, the better paid parent was paid less than $10.00 per hour (in 1996 dollars), while for the overwhelming majority of children in married-couple, working nonpoor families, the better paid parent was paid $10.00 per hour or more.

Findings are similar for children in single-mother families. In 1994, the mother of 96 percent of children in working poor, single-mother families earned less than $10.00 per hour, compared with 45 percent of children in working nonpoor, single-mother families. This difference is also statistically significant.

Patterns by transfer receipt, health insurance coverage, ownership of a house and car, and participation in paid child care.

As would be expected, children in working poor families were much more likely than children in working, nonpoor families to receive public assistance, as shown in Table 4.7. Moreover, this rate of recipiency increased significantly between 1987 and 1994.

Children in working poor families were less likely than children in working nonpoor families to be covered by health insurance. In 1994, 58 percent of children in married-

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18 These statistics are not displayed in Table 4.6.

couple, working poor families were covered by health insurance, compared with 90 percent of children in married-couple, working nonpoor families. Similarly, 74 percent of children in single-parent, working poor families were covered by health insurance, compared with 85 percent of children in single-parent, working nonpoor families.

Children in working poor families were also significantly less likely than children in working nonpoor families to live in owner-occupied houses. In 1994, 45 percent of children in married-couple, working poor families lived in owner-occupied houses, compared with 77 percent for children in married-couple, working nonpoor families. Similarly, 20 percent of children in single-mother, working poor families lived in owner-occupied houses compared with 46 percent for children in single-mother, working nonpoor families.

Rates of car ownership were also significantly lower for children in working poor families than for children in working nonpoor families for both married-couple and single-parent families. In 1994, the rate of car ownership for children in married-couple, working poor families was 85 percent compared with 98 percent for children in married-couple working nonpoor families. Similarly, the ownership rate for children in single-parent, working poor families was 63 percent compared with 84 percent for children in single-parent, working nonpoor families.

Finally, children in working poor families were much less likely than children in other working families to be enrolled in paid child care). In 1993, 8 percent of preschool children in married-couple working poor families were enrolled in paid child care, compared with 37 percent of children in other, more prosperous working families. Similarly, 26 percent of preschool children in single-parent working poor families were enrolled in paid child care, compared with 47 percent of children in other, more prosperous working families. The low rate of participation in paid child care by preschoolers in working poor families may be due to the high cost of child care relative to family income for families in poverty. Of those working poor families paying for child care for their preschoolers in 1993, half paid more than 20 percent of their family income, and one out of five paid more than 40 percent of their family income.

Summary

According to data from the Survey of Income and Program Participation, children are much less likely to be poor if they are living in a *working* family, that is, a one-parent family in which the parent worked at least 1,040 hours per year or a two-parent family in which the parents' hours worked totaled at least 1,820 hours per year. Among children living in families meeting the work standard, only about 8 percent were poor in 1994. In contrast, among children living in families not meeting the work standard, about 70 percent were poor. This association between meeting the work standard and avoiding poverty holds regardless of family structure, race/ethnicity, or parental education.

Even though the association between working and avoiding poverty is strong, many children live in poor families that meet the work standard. In 1994, about 30 percent of all poor children lived in families meeting the work standard. For children living in poor,

married-couple families, the percentage whose parents met the work standard was nearly 43 percent.

Compared with children in poor families not meeting the work standard in 1994, children in working poor families are:

- more likely to live with two parents,
- more likely to have a parent who has completed 12 years of education (single-mother families only),
- more likely to have a parent earning more than $5.00 per hour (married-couple families only),
- less likely to be receiving AFDC or Food Stamps,
- less likely to be covered by health insurance,
- more likely to live in a family that owns a home,
- more likely to live in a family that owns an automobile, and
- more likely to be in paid child care.

Compared with children in nonpoor working families in 1994, children in working poor families are:

- less likely to live with two parents,
- less likely to have a parent who has completed 12 years of education,
- less likely to have a parent earning more than $10.00 per hour,
- more likely to be receiving AFDC or Food Stamps,
- less likely to be covered by health insurance,
- less likely to live in a family that owns a house,
- less likely to live in a family that owns an automobile, and
- less likely to be enrolled in paid child care.

These differences suggest some important implications for welfare reform and its emphasis on increased work effort. We can expect the transition from welfare to working poor to be difficult (especially in a labor market that is less robust than today's), because poor parents not meeting the work standard are at a competitive disadvantage in the labor market compared with working poor parents. More specifically, parents not meeting the work standard are less likely to have graduated from high school and less likely to own a car. In addition, children of parents increasing their work effort might face an increased risk of lacking health insurance coverage.

Moving children from working poor families above the poverty line may be even more difficult since working poor parents are at a similar competitive disadvantage in the labor

market compared with nonpoor working parents. In short, if eradicating child poverty is the objective, welfare reform is only the first step in a long and difficult process.

Chapter 5. Results for 1995-1996 using the Current Population Survey (CPS)

Because of the greater attention paid to collecting income information in SIPP and the fact that annual income is measured month by month and collected every four months, income is better reported in SIPP than in the CPS. Consequently, the poverty rate as estimated by SIPP is lower than the poverty rate estimated by the CPS.

Similarly, information on employment is collected in far greater detail in SIPP than in the CPS, and data are collected on a monthly basis based on interviews conducted every four months. Consequently, the employment information in SIPP is probably more accurate than the employment data collected in the CPS.

Thus, although we display the results for 1995-1996 in essentially the same format as the tables for 1987-1994 presented in Chapter 4, the statistics cannot be combined to form a continuous time series. Nonetheless, it is worthwhile to examine the results from the CPS to see if the patterns of behavior that emerge are the same those that were discussed in Chapter 4 and to view more current information.

Since there was little evidence of changes in these patterns over the 1987-1994 period covered by SIPP, our expectation is that the same patterns would emerge from the CPS analysis of 1995-1996. However, because SIPP is a more precise instrument for measuring the key concepts of income and employment, we can expect that the patterns based on CPS data might be somewhat less distinct.

We address the same four questions addressed in Chapter 4.

To what extent does being in a working family reduce the likelihood of poverty for a child?

As shown in Table 5.1, according to both 1995 and 1996 estimates from the CPS, about 20 percent of children in all families lived in families whose incomes were below the official poverty threshold. However, among children living in families meeting the working threshold, only about 9 percent were poor. In contrast, among children in families not meeting the working threshold, about 63 percent were poor.

Thus, in both 1995 and 1996, children living in families not meeting the working threshold were about seven times as likely to be poor as children living in working families. The fact that this difference is not quite as great as the difference reported for 1994 using SIPP (where the ratio was nearly eight to one), may be due to the less precise measurement of income and employment in the CPS.

Differences by family structure

Consistent with our findings from SIPP, working also reduces the likelihood of poverty when children in married-couple families are considered separately from those in single-mother families. In 1996, among children living in married-couple families meeting the

Table 5.1. Number of children (thousands) living in poor families and as a percentage of all children by family structure and whether hours worked by parents met the work standard, 1995-1996

	1995	1996
All families	14,390	14,230
Working	4,947	5,011
Not meeting work std	9,447	9,216
Married-couple families	4,579	4,583
Working	2,382	2,394
Not meeting work std	2,197	2,189
Single-mother families	8,013	7,638
Working	2,297	2,256
Not meeting work std	5,716	5,382

	1995	1996
All families	20%	20%
Working	9%	9%
Not meeting work std	63%	63%
Married-couple families	10%	10%
Working	5%	5%
Not meeting work std	53%	54%
Single-mother families	47%	46%
Working	24%	24%
Not meeting work std	76%	76%

Note: Data source is the March Current Population Survey, 1996 and 1997

working threshold, only about 5 percent were poor. In contrast, among children in married-couple families not meeting the working threshold, about 54 percent were poor.

Among children in single-mother families meeting the working standard, about 24 percent were poor. In contrast, among children in single-mother families not meeting the working standard, about 76 percent were poor.

Differences by race/ethnicity

As shown in Table 5.2, as with the SIPP analysis, black non-Hispanic and Hispanic children have significantly higher likelihoods of poverty than white non-Hispanic children, within each working status category. Nevertheless, working reduces the likelihood of poverty regardless of children's race or ethnicity. However, the reduction is smaller for black and Hispanic children.

For white, non-Hispanic children, the likelihood of poverty is about 10 times as high for families not meeting the working standard (about 51 percent in 1996) as for working families (about 5 percent in 1996). This ten-to-one difference also holds for Asian

children. For non-Hispanic black children, the likelihood of poverty is about four times as high for families not meeting the working standard (about 73 percent) as it is for working families (about 17 percent). For Hispanic children, the likelihood of poverty is

Table 5.2. Percentage of children living in poor families, by race/ethnicity and whether hours worked by parent(s) met the work standard, 1995-1996

	1995	1996
White, non-Hispanic		
Working	5%	5%
Not meeting work std	50%	51%
Black, non-Hispanic		
Working	18%	17%
Not meeting work std	74%	73%
Asian, non-Hispanic		
Working	7%	6%
Not meeting work std	56%	64%
Hispanic		
Working	23%	24%
Not meeting work std	72%	75%

Note: Data source is the March Current Population Survey, 1996 and 1997

about three times as high for families not meeting the working standard (about 75 percent) as it is for families not meeting the working standard (about 24 percent).

Differences by parental education

As shown in Table 5.3, higher levels of parental education are associated with lower rates of child poverty, within each family structure and working status category of the parents. These results are consistent with the SIPP analysis. In 1996, among children living in married-couple families meeting the working standard, the likelihood of being poor is 31 percent if the better educated parent has completed fewer than 12 years of education but only 1 percent if the better educated parent has completed at least 16 years of education. Among children living in married-couple families not meeting the working standard, the likelihood of being poor is higher, but a higher level of education is still associated with a lower likelihood of being poor.

Similarly, among children living in single-mother families meeting the working standard, the likelihood of being poor is 52 percent if the mother has completed fewer than 12 years of education but only 5 percent if she has completed at least 16 years of education. Among children living in single-mother families not meeting the working standard, the likelihood of being poor is higher, but a higher level education is still associated with a lower likelihood of being poor.

Within education and family structure categories, working still reduces the likelihood of being poor. For example, for children in married-couple families in which the better educated parent had completed fewer than 12 years of education, the likelihood of poverty was 31 percent in 1996 for working families but 71 percent for families not meeting the working standard. For children in married-couple families in which the better educated parent had completed 16 years of education, the likelihood of poverty was

Table 5.3. Percentage of children living in poor families, by whether the hours worked by parent(s) met the work standard, family structure, and the educational attainment of better educated parent, 1995-1996

	1995	1996
Working		
Married-couple		
Less than 12 years	30%	31%
12 years	8%	7%
13-15 years	4%	3%
At least 16 years	1%	1%
Single-mother		
Less than 12 years	53%	52%
12 years	26%	28%
13-15 years	17%	14%
At least 16 years	4%	5%
Not meeting work standard		
Married-couple		
Less than 12 years	70%	71%
12 years	52%	59%
13-15 years	45%	46%
At least 16 years	34%	33%
Single-mother		
Less than 12 years	84%	85%
12 years	77%	73%
13-15 years	66%	67%
At least 16 years	51%	48%

Note: Data source is the March Current Population Survey, 1996 and 1997.

1 percent in 1996 for working families but 33 percent for families not meeting the working standard. There are similar significant differences for children in single-parent families.

How common is it for children in poor families to have working parents?

In Chapter 4, we showed that, even though living in a working family substantially reduces the likelihood of a child being poor, many children live in poor families that meet the working standard. As shown in Table 5.4, this same pattern holds for 1995 and 1996 when the CPS is used. In 1996, about 35 percent of all poor children lived in families

that met the working standard. Among children in poor, married-couple families, a majority (52 percent) lived in families that met the working standard. Among children in poor, single-parent families, a significantly smaller percentage (30 percent) lived in working families.

Differences by race/ethnicity

As shown in Table 5.4, in 1996, children in poor, single-mother, white non-Hispanic families were significantly more likely to live in working families (35 percent) than poor, single-mother, black non-Hispanic children (28 percent) and poor, single-mother Hispanic children (26 percent).

However, 61 percent of children in poor, *married-couple*, Hispanic families had parents who met the working standard—significantly higher than for poor, white non-Hispanic children (51 percent) and poor, black non-Hispanic children (47 percent). Using SIPP data to make this same comparison, this difference was not statistically significant.

Table 5.4. Among children living in poor families, the percentage whose parent(s) met the work standard, by race/ethnicity and family structure, 1995-1996

All races/ethnicities	1995	1996
All types of families	34%	35%
Married couple families	52%	52%
Single mother families	29%	30%
White non-Hispanic		
All types of families	39%	38%
Married couple families	51%	51%
Single mother families	34%	35%
Black non-Hispanic		
All types of families	26%	27%
Married couple families	42%	47%
Single mother families	27%	28%
Asian non-Hispanic		
All types of families	29%	23%
Hispanic		
All types of families	39%	42%
Married couple families	60%	61%
Single mother families	24%	26%

Note: Data source is the March Current Population Survey, 1996 and 1997

Because of the differences in measurement between SIPP and the CPS, we cannot be sure whether the emergence of a significant difference in 1995 represents a change in behavior over time or merely the use of a different survey.

Differences by parental education

As shown in Table 5.5, just as with the SIPP tabulations, the generalization that children in poor, married-couple families were more likely to contain a working parent than

children in poor, single-parent families continues to hold true within categories of educational attainment of the better educated parent. For example, in 1996, among children whose better-educated parent had fewer than 12 years of education, 57 percent of children in poor, married-couple families had parents meeting the working standard,

Table 5.5. Among children living in poor families, the percentage whose parent(s) met the work standard, by family structure and parental education, 1995-1996

	1995	1996
Married-couple		
Less than 12 years	51%	57%
12 years	54%	49%
13-15 years	51%	49%
At least 16 years	49%	51%
Single-mother		
Less than 12 years	24%	22%
12 years	32%	36%
13-15 years	34%	33%
At least 16 years	24%	32%

Note: Source is the March Current Population Survey, 1996 and 1997.

compared with 22 percent of children in poor, single-mother families.

Consistent with the SIPP analysis, children living in poor, single-mother families whose mother had completed fewer than 12 years of education were significantly less likely to have a mother meeting the working standard than children whose mother had 12 years or more of education. However, there was no comparable difference for children in poor, married-couple families.

How are the circumstances of children in working poor families different from those in families not meeting the working standard?

The left and center columns of Tables 5.6 and 5.7 address this question.

As shown in Table 5.6, children in working poor families are twice as likely (48 percent) than children in poor families not meeting the working standard (24 percent) to live in a married-couple family. They are also more likely to live in a single-father family (7 percent versus 3 percent). Conversely, children in poor families not meeting the working standard are more likely to live in single-mother families (59 percent versus 45 percent).

Patterns by race/ethnicity

In 1996, white non-Hispanic children, who accounted for 66 percent of all children in the U.S., made up 38 percent of children in working poor families and 34 percent of children in poor families not meeting the working standard. Thus, white non-Hispanic children

are underrepresented among working poor families and even more underrepresented among poor families not meeting the working standard.

Black non-Hispanic children, who accounted for 15 percent of all children in the U.S. in 1996, made up 23 percent of children in working poor families and 34 percent of children in poor families not meeting the working standard. Thus, black non-Hispanic children were overrepresented among working poor families and even more overrepresented among poor families not meeting the working standard.

Asian, non-Hispanic children, who accounted for 4 percent of all children in the U.S. in 1996, made up 3 percent of children in working poor families and 5 percent of children in poor families not meeting the working standard. Thus, they were slightly underrepresented among working poor families and slightly overrepresented among poor families not meeting the working standard.

Table 5.6. Children in poor families not meeting the work standard, working poor families, and other working families, by family structure, by race/ethnicity, parental education, and average hourly wage rate, 1996

	Poor Families Not Meeting the Work Standard	Working Poor Families	Other Working Families
Family structure			
Married-couple	24%	48%	82%
Single-mother	59%	45%	14%
Single-father	3%	7%	4%
Other	14%	0%	0%
Race/ethnicity			
White non-Hispanic	34%	38%	74%
Black non-Hispanic	34%	23%	11%
Asian non-Hispanic	5%	3%	4%
Hispanic	26%	26%	11%
Family structure and parental education			
Married and education less than 12 years	35%	41%	5%
Single mother and education less than 12 years	46%	30%	9%
Family structure and average hourly wage rate			
Married			
Less than $5 per hour	29%	40%	5%
$5 - $6.99 per hour	26%	30%	6%
$7 - $9.99 per hour	22%	26%	14%
At least $10 per hour	24%	4%	75%
Single mother			
Less than $5 per hour	41%	55%	6%
$5 - $6.99 per hour	31%	33%	16%
$7 - $9.99 per hour	15%	10%	27%
At least $10 per hour	13%	2%	51%

Note: Source is March 1997 Current Population Survey.

Finally, Hispanic children, who accounted for 14 percent of all children in the U.S. in 1996, made up 26 percent of children in both working poor families and poor families not meeting the working standard. Thus, they were equally and substantially overrepresented among both categories of poor families.

Patterns by family structure and parental education

The better educated parent of children in two-parent working poor families is significantly more likely to have completed fewer than 12 years of education (38 percent) than the better educated parent of children in two-parent poor families not meeting the working standard (34 percent). In contrast, using SIPP, we found no significant difference. In view of SIPP's better measurement of both income and employment, we recommend not placing much reliance on this estimated difference.[19]

[19] Moreover, we find no statistically significant difference in the corresponding percentages using the March 1996 CPS.

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On the other hand, among single-mother families, the pattern is reversed (and consistent with the SIPP findings). Mothers of children in working poor single-mother families are significantly *less* likely to have completed fewer than 12 years of education (30 percent) than mothers in poor single-mother families (46 percent).

Patterns by parental wage rate

Consistent with the SIPP findings, in both working poor families and families not meeting the working standard, the average hourly wage rate of the higher earning parent was below $7.00 per hour for a majority of all children. However, in contrast with the SIPP findings, the average hourly wages of the higher earning parent were *lower* in the working poor families than in the poor families not meeting the working standard. This finding should probably not be given much weight in view of the higher likelihood of measurement error in the CPS compared with SIPP.

Patterns of transfer receipt, health insurance coverage, and home ownership

Consistent with SIPP, as shown in the left and center columns of Table 5.7, children in working poor families were significantly less likely than children in poor families not meeting the working standard to receive AFDC or Food Stamp benefits regardless of family structure. In 1996, among children in single-mother families, 28 percent of children in working poor families received AFDC at some time during the year, compared with 65 percent of children in poor families not meeting the work standard. For Food Stamps, the comparable recipiency rates are 51 percent and 79 percent, respectively.

On the other hand (and also consistent with SIPP), children in working poor families were less likely than children in poor families not meeting the working standard to be covered by health insurance. In 1996, 75 percent of children in single-mother, working poor families were covered by health insurance, compared with 89 percent of children in single-mother, poor families not meeting the working standard.

Although coverage rates for children in poor married-couple families were lower for both working families and families not meeting the working standard, a similar difference between children in working families and families not meeting the working standard was evident. In 1996, 61 percent of children in married-couple, working poor families had coverage, compared with 74 percent of children in married-couple, poor families not meeting the working standard.

In contrast with SIPP, there was no difference in rates of home ownership between the families of children in working poor, married-couple families and poor, married-couple families not meeting the working standard. However, among single-mother families, children in working poor families were more likely to live in owner-occupied homes (24 percent) than children in poor families not meeting the work standard (17 percent).

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How are children in working poor families different from those in other more prosperous working families?

The center and right columns of Tables 5.6 and 5.7 address this question. In 1996, about

Table 5.7. Children in poor families not meeting the work standard, working poor families, and other working families, by family structure, by receipt of AFDC and Food Stamps, health insurance coverage, home ownership, 1996

	Poor Families Not Meeting the Work Standard	Working Poor Families	Other Working Families
Married-couple families			
Received AFDC	32%	7%	1%
Received Food Stamps	56%	33%	3%
Health insurance coverage	74%	61%	91%
Home ownership[a]	39%	40%	80%
Single-mother families			
Received AFDC	65%	28%	5%
Received Food Stamps	79%	51%	10%
Health insurance coverage	89%	75%	84%
Home ownership[a]	17%	24%	52%

Note: Source is March 1997 Current Population Survey.

[a]As of March 1997

half of all children in working poor families lived in a single-parent family. In contrast, an overwhelming majority of children in other working families (82 percent) lived with both parents.

Patterns by family structure and parental education

Consistent with SIPP, there are substantial differences in the education of the better educated parent of children in working poor families compared with other working families, regardless of family structure. In 1996, 41 percent of the better educated parents of children in married-couple, working poor families had not completed 12 years of education. In contrast, only 5 percent of the better educated parents of children in other working families had failed to complete a high school education. For children in single-mother families, the difference was also substantial—30 percent for working poor mothers versus 9 percent for other working mothers.

Patterns by parental wage rate

Consistent with SIPP, there are similar differences for average hourly wage rates. For 96 percent of children in married-couple, working poor families, the better paid parent was paid less than $10.00 per hour in 1996, while for 75 percent of children in married-couple, working poor families, the better paid parent was paid at least $10.00 per hour. Findings are similar for single-mother families.

Patterns by transfer receipt, health insurance coverage, and home ownership

As would be expected, and consistent with SIPP results, children in working poor families were much more likely than children in other working families to receive public assistance, as shown in Table 5.7. This held true regardless of family structure.

Children in working poor families were also less likely to be covered by health insurance. Among single-mother families, 75 percent of children with a working poor parent had coverage, compared with 84 percent of children with a more prosperous working parent. Among married-couple families, 61 percent of children with working poor parents had coverage, compared with 91 percent with more prosperous working parents.

Rates of home-ownership were also substantially lower among children in working poor families than among children in other working families, regardless of family structure.

Summary

Analysis of the Current Population Survey (CPS) provides patterns for 1995 and 1996 that are very similar to those reported in Chapter 4, using the Survey of Income and Program Participation (SIPP). Among children living in families meeting the work standard, only about 9 percent were poor in 1996. In contrast, among children living in families not meeting the work standard, about 63 percent were poor. This association between meeting the work standard and avoiding poverty holds regardless of family structure, race/ethnicity, or parental education.

Even though the association between working and avoiding poverty is strong, many children live in poor families that meet the work standard. In 1996, about 35 percent of all poor children lived in families meeting the work standard. For children living in poor, married-couple families, the percentage whose parents met the work standard was about 52 percent.

Compared with children in poor families not meeting the work standard in 1996, children in working poor families are:

- more likely to live with two parents,
- more likely to have a parent who has completed 12 years of education (single-mother families only),
- less likely to be receiving AFDC or Food Stamps,
- less likely to be covered by health insurance, and
- more likely to live in a family that owns a home (single mother families only).

Significant differences were not as common using the CPS, compared with SIPP. This may be due to differences in data collection procedures. The SIPP questionnaire is administered more frequently and collects information on both income and work behavior in far greater detail than the CPS. Consequently, the SIPP information is probably less subject to measurement error.

According to analysis of the CPS, compared with children in other more prosperous working families in 1996, children in working poor families are:

- less likely to live with two parents,
- less likely to have a parent who has completed 12 years of educaiton,
- less likely to have a parent earnings more than $10.00 per hour,
- more likely to be receiving AFDC or Food Stamps,
- less likely to be covered by health insurance (married-couple families only), and
- less likely to live in a family that owns a house.

Chapter 6. The dynamics of poverty and working

The statistics and discussion presented in Chapters 4 and 5 provide "snapshots" of children in a single year. However, the population of children in poverty is not static. A substantial percentage of one year's poor children were not poor in the previous year. Conversely, a substantial percentage of children who are poor in the current year will not be in the next.[20]

As stated earlier, an explicit goal of the 1996 welfare reform legislation is to move families and children out of poverty by encouraging work. The purpose of this chapter is to explore the association for children between having parent(s) who meet the work

Table 6.1. Number (thousands) and percentage of poor children leaving poverty next year and number (thousands) and percentage of nonpoor children becoming poor next year, 1987, 1990-1993

	1987	1988	1989	1990	1991	1992	1993
Leaving poverty							
Number	2,876	na	na	2,337	2,647	2,619	3,214
Percentage	24.9%	na	na	21.0%	20.6%	19.9%	21.0%
Entering poverty							
Number	2,068	na	na	2,778	2,598	2,335	2,511
Percentage	4.0%	na	na	5.2%	4.8%	4.3%	4.7%

Note: Source is the Survey of Income of Program Participation.

Comparable data for 1988 and 1989 were not available (na) from SIPP.

standard[21] and the likelihood of moving into or out of poverty. For example, we can calculate the proportion of poor children living in families not meeting the work standard in one year who are no longer poor in the next year *and* whose families *are* meeting the work standard in the next year.

Recognizing that this process is not a one-way street (even for those whose parents work), we can also calculate the proportion of nonpoor children living in families meeting the work standard in one year who become poor in the next year *in spite meeting the work standard in the second year as well.* This counterflow is a phenomenon that does not receive much popular attention. However, it is just as important as the flow out of poverty in determining the percentage of children living in working poor families in any given year.

Movements of children into and out of poverty using data from SIPP are summarized in Table 6.1. There is a rough balance between the number of children entering and leaving poverty in each year. In other words, the poor children moving out of poverty are mostly

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[20] In 1993, the proportion of nonpoor children who became poor in 1994 was about one in twenty; the proportion of poor children leaving poverty by 1994 was about one 5 (Naifeh, 1998).

[21] Full-time work for married-couple families and half-time work for single-parent families.

offset by nonpoor children moving into poverty. In some years, however, there is a significant imbalance. For example, in 1990-1991, a recession period, the number of children entering poverty was significantly higher than the number leaving poverty. In contrast, in 1993-1994, a period of economic growth, the number of children leaving poverty was significantly higher than the number entering poverty.

In contrast, the proportions of children moving into and out of poverty are quite different—reflecting the difference in the size of the underlying populations. There are many more nonpoor children than there are poor children. For example, about 21 percent of children who were poor in 1993 were no longer poor in 1994. However, about 5 percent of children who were not poor in 1993 became poor in 1994.

Next, we consider how these movements of children into and out of poverty are affected by the work behavior of their parent(s). We have classified each child into one of four categories:

1. Parent(s) met the working standard neither year;
2. Parent(s) met the working standard in the current year but not the next year;
3. Parent(s) met the working standard in the next year but not the current year; and
4. Parent(s) met the working standard in both years.

The remaining tables in this chapter are divided into two panels. The first panel provides information on poor children leaving poverty the next year. The second panel provides information on nonpoor children entering poverty the next year.

As shown in the top panel of Table 2a, among children who were poor in 1993 and whose parents failed to meet the working standard in either 1993 or 1994, 90 percent remained in poverty in 1994, and only 10 percent left poverty. Clearly, if a family's goal is to move out of poverty, keeping parental work effort below the work standard is not a good strategy.

In contrast, among children who were poor in 1993 and whose parents did not meet the work standard in 1993 but did meet the work standard in 1994, 47 percent moved out of poverty—a significantly higher percentage. While increasing parental work effort to meet the work standard is a significantly better strategy, it is worth noting that in every year tabulated the strategy was successful less than half the time. For the other half of the children, increasing work effort led the family into the ranks of the working poor.

Among children who were in poor families in 1993 and whose parents met the working standard in both 1993 and 1994, 38 percent moved out of poverty by 1994. While working in both years yields a significantly higher exit rate than working neither year, the fact that fewer than four in ten children exit poverty if their parents meet the working standard for two consecutive years suggests that working poverty can be a persistent state.[22]

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[22] SIPP's design does not allow us to examine the exit rates for more than two consecutive years.

Table 6.2a. Number (thousands) and percentage of poor children leaving poverty next year, by work status of parents in current and next year, 1987, 1990-1993

	1987	1990	1991	1992	1993
Number					
Met working standard neither year	1,204	629	861	1,021	937
Met working standard in current year but not next	180	243	307	173	313
Met working standard next year but not current	619	398	503	438	788
Met working standard both years	873	1,067	975	988	1,175
Percentage					
Met working standard neither year	18%	10%	12%	12%	10%
Met working standard in current year but not next	20%	23%	22%	17%	26%
Met working standard next year but not current	46%	42%	46%	48%	47%
Met working standard both years	36%	38%	33%	33%	38%

Table 6.2b. Number (thousands) and percentage of nonpoor children entering poverty next year, by work status of parents in current and next year, 1987, 1990-1993

	1987	1990	1991	1992	1993
Number					
Met working standard neither year	676	578	708	671	511
Met working standard in current year but not next	517	957	799	880	900
Met working standard next year but not current	54	104	90	59	117
Met working standard both years	821	1,139	1,001	725	984
Percentage					
Met working standard neither year	23%	19%	22%	18%	16%
Met working standard in current year but not next	9%	15%	14%	14%	15%
Met working standard next year but not current	4%	10%	7%	4%	7%
Met working standard both years	2%	3%	2%	2%	2%

Note: Source is the Survey of Income of Program Participation.
Comparable data for 1988 and 1989 were not available (na) from SIPP.

Some children exited poverty between 1993 and 1994 despite the fact that their parent(s) met the work standard in 1993 but not in 1994. This occurred because parental hours worked are not the only determinant of whether a child's family income falls above or below the poverty threshold. Other factors that could have led to this result include a change in family structure (*e.g.*, marriage), a wage increase, and an increase in unearned income (*e.g.*, SSI, Social Security Disability payments, public assistance, income from assets).

Looking at the likelihood of a nonpoor child entering poverty (Table 6.2b) produces results which are a mirror image of the likelihood of exiting poverty. Children whose parents work in neither year or who meet the working standard in one year but not the next have a relatively high likelihood of moving into poverty from one year to the next. For example, children whose family income exceeded the poverty threshold in 1993 and whose parents failed to meet the working standard in both years had a 16 percent likelihood of falling into poverty by 1994. Similarly, children whose family income exceeded the poverty threshold in 1993 and whose parents met the working standard in

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1993 but did not meet the working standard in 1994 had a 15 percent likelihood of falling

Table 6.3a. Number (thousands) and percentage of poor children leaving poverty next year, by family structure and work status of parents in current and next year, 1987, 1990-1993

	1987	1990	1991	1992	1993
Married couple families					
Number					
Met working standard neither year	505	234	291	471	325
Met working standard in current year but not next	115	119	137	105	131
Met working standard next year but not current	307	187	183	206	321
Met working standard both years	511	709	627	579	715
Percentage					
Met working standard neither year	24%	15%	15%	20%	12%
Met working standard in current year but not next	24%	20%	20%	20%	21%
Met working standard next year but not current	46%	40%	36%	53%	49%
Met working standard both years	30%	39%	35%	34%	37%
Single-mother families					
Number					
Met working standard neither year	541	192	431	411	425
Met working standard in current year but not next	65	123	162	44	141
Met working standard next year but not current	226	185	296	144	403
Met working standard both years	362	351	286	359	406
Percentage					
Met working standard neither year	12%	5%	9%	8%	7%
Met working standard in current year but not next	17%	29%	25%	9%	27%
Met working standard next year but not current	42%	43%	54%	36%	46%
Met working standard both years	49%	38%	27%	32%	38%

Note: Source is the Survey of Income of Program Participation.
Comparable data for 1988 and 1989 were not available (na) from SIPP.

into poverty by 1994.

In contrast, nonpoor children whose parent(s) did not meet the working standard in 1993 but did meet the working standard in 1994 had a significantly lower likelihood of moving into poverty—7 percent. For nonpoor children whose parents met the working standard in both years, the likelihood was only 2 percent—significantly lower than for those nonpoor children whose parents met the working threshold in 1994 but not in 1993.[23]

Patterns by family structure

As shown in Table 6.3.a, the pattern of association between parental work behavior and the likelihood of a poor child exiting poverty held for both married-couple and single-mother families. For example, among children in married-couple families who were poor in 1993 and whose parents did not meet the working standard in either 1993 or 1994, only 12 percent escaped poverty in 1994. In contrast, among children in married-couple families who were poor in 1993 and whose parents did not meet the working standard in 1993 but did meet the working standard in 1994, 49 percent escaped poverty—a

[23] This difference was not consistently significant in the other pairs of consecutive years.

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significantly higher proportion. The corresponding percentages for children in single-mother families were 7 percent and 46 percent, respectively.

Children in both poor married-couple and single-mother families also had a significantly higher chance of escaping poverty in the next year if their parent(s) worked both years than if they worked in neither year. This result is also the same as was obtained when all

Table 6.3b. Number (thousands) and percentage of nonpoor children entering poverty next year, by family structure and work status of parents in current and next year, 1987, 1990-1993

	1987	1990	1991	1992	1993
Married couple families					
Number					
Met working standard neither year	303	278	332	362	256
Met working standard in current year but not next	293	644	591	660	568
Met working standard next year but not current	16	40	28	23	79
Met working standard both years	603	918	865	519	728
Percentage					
Met working standard neither year	20%	17%	22%	20%	18%
Met working standard in current year but not next	7%	13%	12%	13%	12%
Met working standard next year but not current	3%	9%	4%	3%	11%
Met working standard both years	2%	2%	2%	1%	2%
Single-mother families					
Number					
Met working standard neither year	322	131	272	178	159
Met working standard in current year but not next	199	233	146	176	267
Met working standard next year but not current	5	38	49	15	29
Met working standard both years	203	209	130	175	212
Percentage					
Met working standard neither year	29%	16%	22%	14%	15%
Met working standard in current year but not next	18%	20%	16%	16%	23%
Met working standard next year but not current	2%	21%	21%	5%	8%
Met working standard both years	4%	4%	3%	3%	4%

Note: Source is the Survey of Income of Program Participation.
Comparable data for 1988 and 1989 were not available (na) from SIPP.

poor children were analyzed together.

It is interesting to note that there was no significant difference by family structure in the likelihood of poor children leaving poverty as a consequence of their parent(s) meeting the working standard in 1994, given that they did not meet the work standard in 1993. This is surprising in light of the fact that married-couple families have the opportunity to work many more hours per year than single-mother families.

As shown in Table 6.3.b, the pattern of association between parental work behavior and the likelihood of a nonpoor child entering poverty also appeared to hold for both married-couple and single-mother families. However, because of relatively small sample sizes, standard errors were large enough that even large estimated differences were not necessarily statistically significant.

For example, among children in married-couple families above the poverty threshold in 1993 whose parents met the working threshold in neither 1993 nor 1994, 18 percent

entered poverty in 1994. Among children in married-couple families above the poverty threshold in 1993 whose parents did not meet the working threshold in 1993 but did meet the working threshold in 1994, only 11 percent entered poverty. However, this difference was not statistically significant. In three of the four other paired years, the corresponding difference *was* statistically significant.

Once again, regardless of family structure, children living in nonpoor families in 1993 had the lowest likelihood of entering poverty if their families met the working threshold in both 1993 and 1994—2 percent for children in married-couple families above the poverty threshold and 4 percent for children in single-mother families above the poverty threshold. The difference in the likelihood of entering poverty for these children versus children in nonpoor families not meeting the working threshold in both years was statistically significant in all years.

Table 6.4a. Number (thousands) and percentage of poor children leaving poverty next year, by parental education and work status of parents in current and next year, 1987, 1990-1993

	1987	1990	1991	1992	1993
Less than 12 years					
Number					
Met working standard neither year	695	349	336	316	373
Met working standard in current year but not next	35	45	129	58	112
Met working standard next year but not current	232	97	162	117	246
Met working standard both years	209	263	221	268	334
Percentage					
Met working standard neither year	17%	11%	9%	9%	8%
Met working standard in current year but not next	11%	10%	27%	16%	27%
Met working standard next year but not current	43%	33%	46%	37%	48%
Met working standard both years	26%	38%	21%	33%	38%
12 years					
Number					
Met working standard neither year	302	197	291	450	306
Met working standard in current year but not next	87	169	122	54	82
Met working standard next year but not current	132	134	192	186	292
Met working standard both years	336	440	439	508	413
Percentage					
Met working standard neither year	14%	9%	13%	15%	10%
Met working standard in current year but not next	19%	38%	19%	15%	19%
Met working standard next year but not current	31%	36%	39%	47%	44%
Met working standard both years	30%	36%	39%	35%	31%
At least 13 years					
Number					
Met working standard neither year	207	83	234	255	259
Met working standard in current year but not next	nc	29	56	62	120
Met working standard next year but not current	255	167	149	134	250
Met working standard both years	328	364	315	211	428
Percentage					
Met working standard neither year	27%	9%	16%	16%	14%
Met working standard in current year but not next	nc	15%	19%	22%	31%
Met working standard next year but not current	69%	60%	60%	67%	50%
Met working standard both years	63%	42%	42%	31%	50%

Note: Source is the Survey of Income of Program Participation.
Comparable data for 1988 and 1989 were not available (na) from SIPP.

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With only a few exceptions, nonpoor children in single-mother families were not significantly more likely than nonpoor children in married-couple families to enter poverty in the following year, regardless of their pattern of work behavior in the two years.

Table 6.4b. Number (thousands) and percentage of nonpoor children entering poverty next year, by parental education and work status of parents in current and next year, 1987, 1990-1993

	1987	1990	1991	1992	1993
Less than 12 years					
Number					
Met working standard neither year	242	215	325	197	142
Met working standard in current year but not next	109	256	180	284	100
Met working standard next year but not current	7	44	75	27	23
Met working standard both years	194	346	79	146	270
Percentage					
Met working standard neither year	26%	22%	30%	20%	16%
Met working standard in current year but not next	14%	31%	24%	24%	17%
Met working standard next year but not current	2%	12%	14%	7%	6%
Met working standard both years	6%	11%	3%	6%	10%
12 years					
Number					
Met working standard neither year	226	200	182	246	198
Met working standard in current year but not next	230	343	375	345	374
Met working standard next year but not current	13	6	15	23	49
Met working standard both years	401	373	514	326	381
Percentage					
Met working standard neither year	17%	32%	16%	17%	18%
Met working standard in current year but not next	11%	15%	18%	16%	19%
Met working standard next year but not current	3%	2%	2%	7%	10%
Met working standard both years	3%	3%	4%	3%	3%
At least 13 years					
Number					
Met working standard neither year	208	163	201	228	171
Met working standard in current year but not next	177	358	244	251	426
Met working standard next year but not current	34	53	0	9	45
Met working standard both years	226	420	408	254	333
Percentage					
Met working standard neither year	29%	16%	20%	19%	15%
Met working standard in current year but not next	nc	11%	8%	8%	12%
Met working standard next year but not current	9%	14%	0%	1%	6%
Met working standard both years	1%	2%	1%	1%	1%

Note: Source is the Survey of Income of Program Participation.
Comparable data for 1988 and 1989 were not available (na) from SIPP.

Patterns by educational attainment of better educated parent

As shown in Table 6.4.a, the pattern of association between parental work behavior and the likelihood of a poor child exiting poverty held regardless of the educational attainment of the better educated parent. For example, among children in families who were poor in 1993, whose better educated parent had fewer than 12 years of education and whose parents did not meet the working standard in either 1993 or 1994, only 8

percent escaped poverty in 1994. In contrast, among children in families who were poor in 1993 with the same parental education level and whose parents did not meet the working standard in 1993 but did meet the working standard in 1994, 48 percent escaped poverty—a significantly higher proportion. The corresponding percentages for children in families with parental education of 12 years were 10 percent and 44 percent, respectively; for children in families with parental education of at least 13 years, they were 14 percent and 50 percent respectively.

Regardless of parental education, children in both types of families also had a significantly higher chance of escaping poverty in the next year if their parent(s) worked both years than if they worked in neither year. This result is also the same as was obtained when all poor children were analyzed together.

There are indications that parental educational attainment may play a role in the likelihood of a poor child exiting poverty, after controlling for the dynamics of parental work behavior. For example, in all five pairs of years, poor children whose parents moved from below to above the working threshold had a higher likelihood of leaving poverty if their better educated parent had at least 13 years of education rather than fewer than 12 years. However, this difference was statistically significant in only two of the five years. Results are similar if children whose parents were above the working threshold in both years are compared based on their parents' educational attainment. Unfortunately, even large differences are not necessarily statistically significant due to high standard errors.

As shown in Table 6.4.b, the pattern of association between parental work behavior and the likelihood of a nonpoor child entering poverty also appeared to hold regardless of parental education. However, because of relatively small sample sizes, standard errors were large enough that even large estimated differences were not necessarily statistically significant.

For example, among children in families above the poverty threshold in 1993 with parental education less than 12 years and whose parents met the working threshold in neither 1993 nor 1994, 16 percent entered poverty in 1994. Among children in families above the poverty threshold in 1993 with the same parental education and whose parents did not meet the working threshold in 1993 but did meet the working threshold in 1994, only 6 percent entered poverty. However, this difference was not statistically significant. In three of the four other paired years, the corresponding difference *was* statistically significant. There are similar differences for the other two parental education categories.

Nonpoor children whose parents met the working threshold in both years generally had the lowest likelihood of entering poverty for the two higher education categories—3 percent in 1994 if parental education was less than 12 years and 1 percent in 1994 if parental education was at least 13 years. However, in the lowest education category, the likelihood of poverty was not consistently or significantly lower than for children whose parents moved from below to above the working threshold.

Indeed, there is evidence that parental education is significantly associated with the likelihood of a nonpoor child entering poverty, regardless of the dynamics of parental work behavior. For example, the likelihood of a nonpoor child entering poverty in spite of parental employment above the working threshold is consistently only 1-2 percent if parental education exceeds 13 years. The corresponding percentage for nonpoor children whose parental education is less than 12 years ranges between 3 percent and 11 percent. The difference is statistically significant in four out of five years. Results are similar if children whose better educated parent has 13 or more years of education are compared with children whose better educated parent has 12 years of education. Comparisons of children whose better educated parent has 12 years of education and children whose better educated parent has less than 12 years of education yields somewhat less consistent and significant results, but the direction of the difference is generally in the same direction.

Summary

Over time, there is a rough balance between the number of children entering and leaving poverty each year. However, during the 1990-1991 recession, the number of children entering poverty was significantly higher than the number of children leaving poverty; in contrast, during the 1993-94 period of substantial economic growth, the number of children leaving poverty was significantly higher than the number entering poverty.

Consistently over the entire period, increasing parental work effort to meet or exceed the working standard is a much better strategy for moving children out of poverty than not meeting the working standard in either year. However, in every year tabulated, this strategy was successful at removing the child from poverty only about half the time. For the other half, increasing work effort led the family into the ranks of the working poor.

Conversely, meeting the working standard for two consecutive years is a good strategy for avoiding moving into poverty. For nonpoor children whose parents met the working standard in both years, the likelihood of moving into poverty was only 2 percent. This is significantly lower than the likelihood for (a) those nonpoor children whose parents met the working standard in the second year only (7 percent), and (b) those nonpoor children whose parents failed to meet the working standard in either year (16 percent).

These two findings generally hold regardless of whether the child is in a married-couple family or a single-mother family. In fact, there was no significant difference by family structure in the likelihood of poor children leaving poverty as a consequence of their parent(s) meeting the working standard in 1994, given that they did not meet the working standard in 1993. Moreover, with only a few exceptions, nonpoor children in single-mother families were not significantly more likely than nonpoor children in married-couple families to enter poverty in the following years, regardless of the work behavior of their parent(s).

Similarly, the pattern of association between parental work behavior and the likelihood of a child exiting or entering poverty held regardless of the educational attainment of the better educated parent. However, there were indications that parental education may play

a key role in the likelihood of a child exiting or entering poverty, after controlling for the dynamics of parental work behavior. Higher levels of education appears to be associated with a better chance of escaping poverty and a better chance of avoiding poverty. However, these relationships were not consistently statistically significant.

Chapter 7. Analysis of the sensitivity of results to the definition of poverty

The results presented in this report thus far have used the official definition of poverty. This definition counts as economic resources only pre-tax money income. Thus, it does not include in-kind transfers including Food Stamps, WIC, housing assistance, energy assistance, etc. It does not subtract income or payroll taxes, even though these taxes may reduce or increase (via the Earned Income Tax Credit) the amount of money that families have to purchase goods and services. The official poverty definition also fails to take into account work-related expenses such as paid child-care expenses and commuting expenses.[24]

Addressing all or most of the problems of the official poverty definition, as was attempted by the National Research Council (1996), was beyond the scope of this project. Instead, we focused on making several key adjustments that would have the effect of measuring the economic wellbeing of children in working families and children in families not meeting the work standard on a more equal footing. We have created two alternative poverty definitions, both of which will be described in turn.

First alternative poverty definition

The first alternative poverty definition is different in three key respects from the official definition:

1. We add the face value of Food Stamp coupons received to its income as part of a family's economic resources;
2. We subtract a family's estimated federal income and payroll tax liability (which is possibly negative due to the Earned Income Tax Credit) from a family's economic resources; and
3. We subtract a family's estimated child-care expenses from a family's economic resources.

Under this first alternative definition, we define a family as poor if its *net economic resources* (income plus Food Stamps and minus federal payroll and income taxes and child-care expenses) are less than the official poverty threshold.

As should be clear from the preceding paragraphs, this definition does not take into account all or even most of the issues raised by critics of the official poverty definition. However, it addresses some of the major shortcomings of the official measure, and, for purposes of a study of children in working poor families, it puts children in working

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[24] Other problems with the official poverty definition have also been identified (National Research Council, 1996). These include the lack of adjustments for geographic differences in housing costs and the rental value of owner-occupied housing, the absence of a connection between the poverty threshold and the overall standard of living,, and its failure to take into account publicly provided health insurance (especially Medicare and Medicaid).

families and children in families not meeting the work standard on a more equal footing.[25]

As shown in Chapters 4 and 5, working families are less likely than families not meeting the work standard to receive Food Stamps. Moreover, working families are more likely than families not meeting the work standard to pay a substantial amount of federal payroll taxes and child-care expenses. On the other hand, working families are more likely to be eligible for substantial refundable tax credits under the Earned Income Tax Credit—especially in more recent years.[26] Thus, taking into account just Food Stamps, federal payroll taxes and child care expenses, working families are likely to have *lower* net economic resources with the first alternative poverty definition than under the official definition. However, when the effect of the Earned Income Tax credit is taken into account as well (which is the case in our first alternative poverty definition), net economic resources might be either higher or lower than under the official definition of poverty.[27]

Families not meeting the work standard are likely to have *higher* net economic resources under the first alternative poverty definition. This is because their Food Stamp allotment will be counted as part of net economic resources and their earnings (if any) are likely to generate an earned income tax credit, which will further increase their net economic resources.

If a family's ability to pay for goods and services for their children is an appropriate yardstick to measure child economic wellbeing, then the first alternative poverty definition puts working families and families not meeting the work standard on a more equal footing than does the official poverty definition. This is because it is based on a

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[25] Food Stamps, which *are* included in our measure of economic resources account for about half of the average, annual, means-tested non-cash benefits received by poor families. The sum of WIC, school lunches and breakfasts, housing subsidies, and energy assistance, which are *not* included in our measure of economic resources, account for the other half (Institute for Research on Poverty, 1998). These other benefits are much less close substitutes for cash compared with Food Stamps.

[26] The generosity of the Earned Income Tax Credit has increased dramatically between 1987 and 1998. In 1987, the maximum earned income tax credit was $851, which was paid to families whose earnings were between $6,080 and $6,920. The credit was phased out gradually as earnings increased beyond $6,920 and fell to zero when earnings reached $15,432.

By 1994, the year which will be the focus of the analysis in this chapter, the maximum earned income tax credit was $2,038 for a family with one child and $2,528 for a family with more than one child. The maximum credit was paid within the income range of $11,000 and $23,755 for family with one child and within the income range of $11,000 and $25,296 for a family with more than one child. The phase-out points for earnings were $23,755 for a family with one child and $25,296 for a family with more than one child.

In 1998, the maximum earned income tax credit was $2,271 for a family with one child and $3,756 for a family with more than one child. The phase-out point for earnings were $26,450 for a family with one child and $30,095 for a family with more than one child.

[27] Analysis of the antipoverty effectiveness of federal income and payroll taxes shows that in 1989 the net impact of federal payroll income and payroll taxes was to *increase* the poverty rate. By 1993, the effect was neutral. In 1994, the effect was to *decrease* the poverty rate. This change reflects the increased generosity of the Earned Income Tax Credit described in the previous footnote.

family's income *after federal payroll and income taxes and after child-care expenses*. Thus, when the impact of welfare reform on children's economic wellbeing is assessed, the first alternative poverty definition does a better job than the official poverty definition of measuring whether children are economically better off when their parents increase their work effort in response to the work requirements of TANF.

Second alternative poverty definition

Although the first alternative poverty definition is useful, it has one important potential drawback. Its use can either raise or lower the percentage of children in poverty. Counting Food Stamp benefits as part of economic resources will tend to *lower* the percentage of children in poverty, other things equal. On the other hand, during the late 1980s and early 1990s, excluding federal income and payroll taxes from net economic resources would tend to *increase* the percentage of children in poverty, other things equal. However, by the mid to late 1990s, the increased generosity of the Earned Income Tax Credit reversed the net effect of the federal payroll and income tax system on the poverty rate. In other words, many families with low earnings, on net, *receive* money from the federal tax system. Consequently, at present, inclusion of Food Stamp benefits and exclusion of federal income and payroll taxes may both tend to *decrease* the percentage of children in poverty.

If the adjustments made by the first alternative poverty definition significantly raise the percentage of children in poverty, they amount to a *de facto* raising of the minimally acceptable standard of living for children—even if such an increase was not intended. Conversely, if the adjustments lower the percentage of children in poverty, they, in effect, lower the minimally acceptable living standard we set for our children.

The second alternative poverty definition adjusts for this incidental effect by raising or lowering the poverty *threshold* by an amount necessary to offset the increase or decrease in the percentage of children in poverty. Thus, by definition, the second alternative poverty standard has the same percentage of children in poverty as the official standard.

However, as discussed above, there have been changes in the progressiveness of the federal tax system due to the changes in the generosity of the Earned Income Tax Credit. Consequently, the size of the adjustment in the poverty thresholds needed to offset the increase or decrease in the percentage of children in poverty will vary from one year to the next. For the second alternative poverty definition to be useful to assess year-to-year changes in the percentage of children in poverty, it is necessary to pick a *single year* in which to perform the adjustment in the poverty threshold.

We have chosen 1993 as the year to make the adjustment in the threshold. Although the choice of 1993 is arbitrary, it happens to be a year in which the federal income and payroll tax system had a neutral effect on the percentage of the population in poverty Center on Budget and Policy Priorities (1998), and it is the first year of the most current SIPP panel that is available for analysis. (Use of SIPP is essential because we have

programmed a routine for imputing federal income and payroll taxes for SIPP, but not for the Current Population Survey. This routine will be described briefly in the next section.)

Imputing federal payroll and income taxes

Although SIPP includes in its questionnaire a section covering payments of federal income taxes, at the present time the Census Bureau has not yet "developed an appropriate method to incorporate this information into a complete tax model" (Short, *et al.*, 1998). No questions are included in SIPP to obtain information on payment of federal payroll taxes. Consequently, in order to adjust for payments of federal payroll and income taxes, we have constructed a simplified algorithm to estimate federal payroll and income taxes based on the regulations of these two tax systems.

Federal payroll taxes

Federal payroll taxes are relatively straightforward to estimate. They are estimated as a fixed percentage of earnings, where the percentage is allowed to vary from year to year in accordance with changes in the percentage of earnings deducted from gross earnings for Social Security and Medicare. We have made two simplifications. First, we do not double the payroll tax rate for self-employed individuals (for whom we expect poverty-level incomes are rare). Second, we do not take into account the maximum amount that is subject to payroll taxes (since the maximum is several times the poverty line and, therefore, not relevant to the low-income population). We do not expect that these simplifications will have a significant effect on the accuracy of estimates of federal payroll taxes for families with incomes in the vicinity of the poverty line.

Federal income taxes

Our estimation of federal income taxes begins with calculating adjusted gross income. We add together all family income from sources that are subject to federal taxation. The most important of these sources is earnings. However, we also include income from interest, dividends, rentals, etc.

We estimate the number and dollar value of personal and dependent exemptions based on family structure information. (The dollar value of each personal exemption varies from year to year.) We assume that all families take the standard deduction. This simplifying assumption can be expected to lead to significant overestimates of tax liability for high-income home-owning families. However, we expect that the error generated by this assumption will be small for families at or near the poverty line. Even for poor or near-poor home-owning families, deductible mortgage and property tax deductions are not likely to exceed the standard deduction, which was $6,350 in 1994.[28] Moreover,

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[28] It may be that many poor or near-poor families that are homeowners live in houses with no mortgages or very small mortgages. However, even for recent home-buyers, a new $75,000 mortgage carrying a 7 percent interest rate would generate deductible interest of only $5,250 in the first year (declining thereafter). If property taxes were about $1,200 per year, the total Schedule A deduction would roughly match the standard deduction. Thus, it seems unlikely that a

according to tax return data compiled by the Internal Revenue Service, about 95 percent of returns with adjusted gross income of less than $20,000 per year used the standard deduction (U.S. Internal Revenue Service, 1997).

Taxable income is calculated by subtracting the dollar value of the personal exemptions and the standard deduction from adjusted gross income. We then apply the applicable marginal tax rates to obtain an estimate of gross tax liability.

We take into account two credits against the gross tax liability—the child care (or dependent) tax credit and the Earned Income Tax Credit. Annual child care expenses are estimated based on the amount of child care expenses reported in SIPP for a typical month. The credit is calculated based on the formulas provided under the tax code. The credit is then subtracted from the gross tax liability and set equal to zero if the difference is negative (since the child care credit is not refundable).

The Earned Income Tax Credit is calculated based on the earnings of the people included in the tax filing unit. Our estimate is based on the tax code for each year and takes into account the significant expansion of the EITC that has taken place over the past decade. In contrast with the child care tax credit, the EITC is refundable. Thus, if the amount of the EITC exceeds the gross tax liability, the net tax can be negative. In 1994, the preliminary estimate of the average credit per qualifying family was $1,110, and nearly 80 percent of that amount was refunded (U.S. House of Representatives, 1998).

If the net federal and payroll tax estimated by these procedures is positive, it is subtracted from family income in the calculation of economic resources. If the net federal and payroll tax is negative, it is added to income in the calculation of economic resources.

It should be emphasized that, since we are *simulating* federal taxes rather than measuring them directly, there may be differences between our estimates and the taxes actually paid (or refundable EITC received) by families with children. Perhaps the most important example of a potential difference derives from families that choose not to file federal income tax returns even though they are eligible for a refundable EITC. We assume that every family that is eligible for a refundable EITC files a federal income tax return. However, filing is not mandatory for these families unless their income exceeds certain amounts (that vary from one type of family to another) or if they meet certain special circumstances. Thus, our estimation procedure will overstate the refundable EITC payments received to the extent that a significant percentage of eligible families fail to file.

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significant percentage of poor or near-poor families would have Schedule A deduction much in excess of the standard deduction.

Results

First alternative poverty definition

In this section, we focus on results using the first alternative poverty definition for 1993 and 1994, the last years for which information from SIPP is currently available.[29] As shown in the lower panel of Table 7.1, employing the first alternative poverty definition instead of the official poverty definition changed the percentage of children in poverty from 22 percent to 20 percent in 1993 and from 22 percent to 19 percent in 1994. These differences are statistically significant.

Similarly, among families not meeting the work standard, the percentage of children who were living in poor families is significantly lower (71 percent versus 66 percent in 1993 and 70 percent versus 63 percent in 1994) using the first alternative poverty definition. However, for working families, there was no statistically significant difference in the percentage of children who were poor. Family resources for children in working families were probably less affected by the change in definition because their families are less likely to receive Food Stamps.[30]

When children in married-couple families are considered separately, the differences in the 1993 and 1994 poverty rates are not significantly different from the rates using the

Table 7.1. Number of children (thousands) living in poor families (using official definition of poverty and alternative 1 definition of poverty) and as a percentage of all children, by family structure and whether hours worked by parents met the work standard, 1993-1994

	Official Poverty Definition		Alternative 1 Poverty Definition	
Number	1993	1994	1993	1994
All families	15,097	15,118	13,870	12,998
Met work standard	4,276	4,489	3,816	3,703
Did not meet work standard	10,821	10,630	10,060	9,294
Married-couple families	5,795	6,168	5,349	5,305
Met work standard	2,535	2,640	2,406	2,407
Did not meet work standard	3,260	3,527	2,942	2,898
Single-mother families	8,143	7,663	7,411	6,575
Met work standard	1,577	1,672	1,252	1,167
Did not meet work standard	6,566	5,991	6,159	5,408
Percentage	1993	1994	1993	1994
All families	22%	22%	20%	19%
Met work standard	8%	8%	7%	7%
Did not meet work standard	71%	70%	66%	63%
Married-couple families	12%	12%	11%	10%
Met work standard	6%	6%	5%	5%
Did not meet work standard	62%	63%	56%	51%
Single-mother families	54%	48%	49%	42%
Met work standard	21%	20%	17%	14%
Did not meet work standard	87%	81%	82%	73%

Note: Source is 1993 panel of Survey of Income and Program Participation

[29] Data from the 1996 SIPP have begun to be released one wave at a time. As of January 1999, data from only the first wave of the 1996 panel is available. We hope to analyze data from the 1996 SIPP in a follow-on project.

[30] About 80 percent of children living in married-couple, poor families not meeting the work standard receive Food Stamps, compared with about 50 percent of children in married-couple families who meet the work standard (see Table x.7). For children in single-parent families, the corresponding statistics are 94 percent and 81 percent.

official poverty definition. However, the difference in 1993 (53 percent poor versus 48 percent poor) for children in single-parent families *is* statistically significant. Moreover, there are also statistically significant differences in the percentage who are considered poor for children in both working families and children in families not meeting the work standard.[31]

Another notable effect of employing the first alternative poverty definition is that the poverty rate fell between 1993 and 1994, even though it had remained unchanged using the official poverty definition. The decline, which is statistically significant, reflects increases in economic resource that are counted under the first alternative poverty definition but not under the official definition. One likely explanation for this finding is the increasing generosity of the earned income tax credit.

Although the percentages of children who are poor are significantly lower for many of the groups discussed in the previous paragraphs, an important finding from previous chapters remains unchanged. Children in working families are far less likely to be poor than children in families not meeting the work standard, regardless of which definition of poverty is used.

As shown in Table 7.2, when children are considered separately by race/ethnicity, a similar pattern appears to emerge—larger differences in the poverty rate between the two definitions for children in families not meeting the work standard than in working

Table 7.2. Percentage of children living in poor families (using official poverty definition and Alternative 1 poverty definition), by race/ethnicity and whether hours worked by parent(s) met the work standard, 1993-1994

	Official poverty definition		Alternative 1 poverty definition	
	1993	1994	1993	1994
White, non-Hispanic				
Met work standard	5%	5%	4%	5%
Did not meet work standard	60%	58%	55%	47%
Black, non-Hispanic				
Met work standard	18%	15%	14%	9%
Did not meet work standard	80%	83%	76%	75%
Asian, non-Hispanic				
Met work standard	6%	4%	5%	4%
Did not meet work standard	73%	81%	61%	73%
Hispanic				
Met work standard	22%	20%	20%	18%
Did not meet work standard	81%	82%	77%	75%

Note: Source is the 1993 panel of the Survey of Income of Program Participation.

[31] Even though children in poor, working, single-parent families are less likely to receive Food Stamps than children in poor, single-parent families not meeting the work standard, about 80 percent of children in poor, working, single-

families. However, none of these differences is statistically significant.

For each racial/ethnic group, our earlier conclusion still holds. Children in working families are far less likely to be poor than children in families not meeting the work standard, regardless of which definition of poverty is used.

As shown in Table 7.3, use of the first alternative poverty definition has little effect on the share of children living in poor families accounted for by working families. Looking at poor children as a whole, there is no statistically difference in either 1993 or 1994—about three out of ten poor children live in families meeting the work standard.

Just as in our previous analysis, children in poor, married-couple families are significantly more likely than children in poor, single-parent families to have a parent(s) meeting the work standard. This finding holds across all four racial/ethnic groups. In fact, about half of both white non-Hispanic and Hispanic children living in poor married-couple families have parents that meet the work standard.

Other findings reported in earlier chapters (*e.g.* educational differences, differences in health insurance coverage, receipt of public assistance, home ownership, auto ownerhsip, etc., between children in working poor families and children in families not meeting the work standard) are essentially unchanged as a result of using the alternative poverty

Table 7.3. Among children living in poor families (using official poverty definition and Alternative 1 poverty definition), the percentage whose parent(s) met the work standard, by race/ethnicity and family structure, 1993-1994

	Official poverty definition		Alternative 1 poverty definition	
	1993	1994	1993	1994
All races/ethnicities				
All types of families	28%	30%	28%	28%
Married couple families	44%	43%	45%	45%
Single mother families	19%	22%	17%	18%
White non-Hispanic				
All types of families	33%	36%	33%	38%
Married couple families	43%	46%	44%	51%
Single mother families	27%	31%	27%	30%
Black non-Hispanic				
All types of families	23%	22%	20%	16%
Married couple families	36%	29%	39%	24%
Single mother families	20%	22%	15%	15%
Asian non-Hispanic				
All types of families[a]	16%	11%	16%	13%
Hispanic				
All types of families	30%	31%	30%	31%
Married couple families	55%	51%	55%	52%
Single mother families	12%	15%	11%	11%

parent families receive Food Stamps. This probably accounts for the result that the change in the poverty definition significantly lowers the poverty rate for children in poor, working, single-parent families.

Note: Source is the 1993 panel of the Survey of Income of Program Participation

[a]Standard errors for this group are large. Therefore, point estimates are not highly reliable.

definition and are not reported in detail here.

Thus, although use of the first alternative poverty definition changes the percentage of children in poverty—in some cases significantly—the patterns described in earlier chapters remain intact.

Second alternative poverty definition

As shown in Table 7.1, using the first alternative poverty definition lowered the SIPP estimate of the child poverty rate in 1993 from 22 percent to 20 percent. To offset this effect, we raised the poverty threshold by 5 percent while continuing to measure economic resources as they were measured in the first alternative poverty definition. The 5 percent increase in the threshold was sufficient to raise the percentage of children in poverty back to 22 percent. Thus, the second alternative poverty definition places the same percentage of children in poverty as the official poverty definition but measures

Table 7.4. Number of children (thousands) living in poor families (using official definition of poverty and alternative 2 definition of poverty) and as a percentage of all children, by family structure and whether hours worked by parents met the work standard, 1993-1994

	Official Poverty Definition		Alternative 2 Poverty Definition	
Number	1993	1994	1993	1994
All families	15,097	15,118	15,000	14,170
Met work standard	4,276	4,489	4,503	4,369
Did not meet work standard	10,821	10,630	10,490	9,803
Married-couple families	5,795	6,168	6,062	6,043
Met work standard	2,535	2,640	2,875	2,903
Did not meet work standard	3,260	3,527	3,187	3,140
Single-mother families	8,143	7,663	7,712	6,924
Met work standard	1,577	1,672	1,430	1,303
Did not meet work standard	6,566	5,991	6,282	5,622
Percentage	1993	1994	1993	1994
All families	22%	22%	22%	20%
Met work standard	8%	8%	8%	8%
Did not meet work standard	71%	70%	69%	66%
Married-couple families	12%	12%	12%	12%
Met work standard	6%	6%	6%	6%
Did not meet work standard	62%	63%	60%	56%
Single-mother families	53%	48%	50%	44%
Met work standard	21%	20%	19%	15%
Did not meet work standard	83%	81%	79%	76%

Note: Source is the 1993 panel of Survey of Income of Program Participation

economic resources in the same way as the first alternative poverty definition.

Under the second alternative poverty definition, there is a statistically significant drop in the child poverty rate between 1993 and 1994 from 22 percent to 20 percent, even though the official poverty rate remained unchanged at 22 percent. This 1993-1994 drop was also observed for the first alternative poverty definition and probably is caused by the expansion of the earned income tax credit between 1993 and 1994. The official poverty definition is insensitive to EITC payments, while both of our alternative definitions include it as part of economic resources.

This result points out an important implication of using alternative poverty definitions. Because they measure resources differently, alternative poverty rates can follow a different pattern over time than the official poverty rate. Whereas the official poverty rate is insensitive to the Food Stamp program and the federal income and payroll tax system, both of the alternatives analyzed in this report are sensitive to these federal programs because they affect economic resources.

There are no statistically significant differences in 1993 between the child poverty rates using the official definition and using the second alternative definition for any of the family structure or employment behavior groups identified in Tables 7.4. However, there are significant differences in 1994 for families not meeting the work standard.

For example, among children in married-couple families not meeting the working standard, 56 percent live in poor families under the second alternative poverty definition, compared with 63 percent under the official definition. The corresponding figures for

Table 7.5. Percentage of children living in poor families (using official poverty definition and Alternative 2 poverty definition), by race/ethnicity and whether hours worked by parent(s) met the work standard, 1993-1994

	Official poverty definition		Alternative 2 poverty definition	
	1993	1994	1993	1994
White, non-Hispanic				
Met work standard	5%	5%	5%	5%
Did not meet work standard	60%	58%	58%	51%
Black, non-Hispanic				
Met work standard	18%	15%	16%	11%
Did not meet work standard	80%	83%	79%	77%
Asian, non-Hispanic				
Met work standard	6%	4%	6%	5%
Did not meet work standard	73%	81%	69%	77%
Hispanic				
Met work standard	22%	20%	24%	22%
Did not meet work standard	81%	82%	78%	78%

Note: Source is the 1993 panel of the Survey of Income of Program Participation.

children in single-parent families not meeting the working standard were 76 percent and 81 percent, respectively. This decline in the poverty rate for families not meeting the working standard is due to the increase in generosity of the EITC between 1993 and 1994. In 1994, we estimate that the families of about 2 million children received refundable EITC payments of at least $2,000, and it was possible for a family with two or more children and earnings between $6,660 and $14,000 to qualify for a benefit of at least $2,000. In 1993, the maximum EITC benefit was only about $1,500 for a family with at least two children.

As found using the first alternative definition, children in working families are far less likely to be poor than children in families not meeting the work standard. This is not surprising since the only difference between the first and second alternative definitions of poverty is a 5 percent difference in the poverty thresholds.

As shown in Table 7.5, when children are considered separately by race/ethnicity, statistically significant differences between the poverty rates using the two different

Table 7.6. Among children living in poor families (using official poverty definition a Alternative 2 poverty definition), the percentage whose parent(s) met the work standard, by race/ethnicity and family structure, 1993-1994

	Official poverty definition		Alternative 2 poverty definition	
	1993	1994	1993	1994
All races/ethnicities				
All types of families	28%	30%	30%	31%
Married couple families	44%	43%	47%	48%
Single mother families	19%	22%	19%	19%
White non-Hispanic				
All types of families	33%	36%	36%	39%
Married couple families	43%	46%	47%	52%
Single mother families	27%	31%	30%	30%
Black non-Hispanic				
All types of families	23%	22%	21%	18%
Married couple families	36%	29%	39%	29%
Single mother families	20%	22%	17%	17%
Asian non-Hispanic				
All types of families[a]	16%	11%	16%	13%
Hispanic				
All types of families	30%	31%	33%	34%
Married couple families	55%	51%	59%	56%
Single mother families	12%	13%	11%	11%

Note: Source is the 1993 panel of the Survey of Income of Program Participation

[a]Standard errors for this group are large. Therefore, point estimates are not highly reliable.

definitions emerge in 1994 for three groups. For black children, the poverty rate is significantly lower in 1994 using the second alternative definition than it is under the official poverty definition, regardless of whether their parents met the work standard. For white non-Hispanic children living in families not meeting the work standard, the poverty rate is also significantly lower in 1994 using the second alternative definition than it is using the official poverty definition. There is no significant change in the poverty rate for Hispanic children.

As shown in Table 7.6, use of the second alternative poverty definition has no statistically significant effect on the share of children living in poor families accounted for by working families. About three out of ten poor children live in working families.

Summary

In this chapter, we have defined two alternative poverty definitions and tested the sensitivity of our analysis of children in working poor families to using these definitions instead of the official poverty definition. In both alternative poverty definitions, we have defined economic resources to include not just pre-tax money income but also the value of Food Stamps and any refundable earned income tax credit received by the family. We have also excluded from economic resources any positive federal payroll or income tax liability and child care expenses. The first definition uses the poverty thresholds of the official poverty definition, while the second definition adjusts the thresholds to produce in 1994 the same percentage of children living in families below the poverty threshold as the official definition.

Using the first alternative poverty definition results in 20 percent of children being classified as poor in 1993 and 19 percent in 1994. These percentages are significantly lower than the percentage classified as poor using the official definition (22 percent in both years). Moreover, the 1993-1994 decline in the first alternative poverty rate is statistically significant.

However, use of the first alternative poverty definition has little effect on the share of poor children living in working families. Moreover, findings reported in earlier chapters comparing working poor families with other poor families and other working families (*e.g.*, differences in parental education, receipt of public assistance, health insurance coverage, etc.) are essentially unchanged.

Using the second alternative poverty definition also leads to significant decline in the poverty rate between 1993 and 1994. Moreover, in 1994, children living in families not meeting the work standard are less likely to live in families considered poor using the second alternative poverty definition than when the official definition is used.

Nonetheless, using the second alternative poverty definition has no effect on the percentage of poor children living in poor families who have working parents. Nor does it affect any of the findings reported in earlier chapters comparing working poor families with other poor and families and other working families.

Chapter 8. Discussion

In Chapter 1, we noted that welfare reform explicitly includes two major purposes. The first is to increase the amount of work performed by adults currently on welfare. The second is to decrease child poverty. In our discussion of the findings of this report, we focus on these two purposes in turn.

Negotiating the transition from welfare to work

In recent years, welfare caseloads have plummeted. In 1996, the monthly average AFDC caseload was 12.6 million recipients in 4.6 million families (U.S. Department of Health and Human Services, 1998). During the first half of 1998, there were only 8.4 million recipients in 3.0 million families.

Moreover, during 1998, about 28 percent of adults on the welfare rolls were engaged in work-related activities as defined by the TANF rules (Pear, 1998). This means that most states were meeting the current work requirements of the welfare reform law. This provides evidence that welfare reform is promoting increased work activity on the part of welfare recipients, in spite of their disadvantages in competing in the labor market.

It should be noted, however, that this increase in work is occurring in the context of an unusually robust economy with unemployment rates lower than they have been since 1969 (during the Vietnam War). The average monthly unemployment rate in 1997 was 4.9 percent, while in 1998 the rate dropped even further to 4.5 percent. In contrast, in the aftermath of the most recent recession, the unemployment rate was 7.5 percent in 1992.

From an economic standpoint, the increase in work activity is good news since, regardless of family structure, race/ethnicity, and parental education, living in a working family dramatically reduces the likelihood of a child being in poverty. Moreover, maternal employment has not been found to be harmful to children, although the quality and stability of child are concerns (Moore and Driscoll, 1997; Zaslow and Emig, 1997).

Yet, among poor children, 52 percent of children in married-couple families had parents who met the work standard (the equivalent of one full-time worker) in 1996, while 30 percent of children in single-mother, families had a parent who met the work standard (the equivalent of half-time work). Thus, meeting the work standard provides no guarantee of a child's escaping poverty.

Assuming that jobs were available, virtually all of the children in the married-couple, poor families could have moved above the poverty line if the parents had worked more hours. (We have seen that parents in working poor, married-couple families are far more likely to have the husband supply 75 percent or more of total parental hours worked, compared with parents in other working families.) An obvious question is why the wives in these married couples did not increase their hours worked. The low hourly wage rates earned by a large percentage of the *better paid* of these parents may be a piece of the answer to this question. One of the parents may feel that the value of their uncompensated time at home exceeds the value of the extra income they would earn if

they worked for pay--especially if that work required expenditures on child care. Another possibility is that some of these married parents might be working "off the books," an apparently common practice among poor *single* mothers (Edin and Lein, 1997).

This same tradeoff applies to single parents. However, with one earner and relatively low wage rates, it is much more difficult for a single parent family to rise above the poverty threshold than it is for a married-couple family.

The problem of low wage rates deterring people from working enough to rise out of poverty is likely to apply even more strongly to welfare recipients who go to work. A recent summary of studies of welfare recipients who found jobs in twelve states[32] found that "employed former recipients and recipients combining work and welfare typically are paid less than $8 per hour and a substantial portion earn less than $6 per hour" (Parrott, 1998). Although they tend to work more than 30 hours per week, recipients who find jobs typically earn between $8,000 and $10,800 annually, due, presumably, to periods of joblessness.

Educational attainment appears to play a significant role in determining whether poor, single-mother families work enough to meet the work standard. A significantly higher percentage of children in single-mother, working poor families have a mother who has completed at least 12 years of education than children in single-mother poor families not meeting the working standard. This finding suggests that a high school diploma may contribute to the success of a woman attempting to move off and stay off welfare.

Current welfare policy strongly favors moving welfare recipients into work-related activities ("Work First") rather than remedial education. Given the already heavy demands on the time of working single mothers, it would seem unlikely that many of them would be able to devote time to obtaining a high school diploma or a post-secondary education. This suggests that policy makers should continue to explore the payoff from adult education.[33] Analysis of the JOBS experimental groups may provide a definitive answer to this question over the next two years. Regardless of the payoff to *remedial* education, these findings underscore the importance of encouraging students who are still in school to earn a high school diploma and consider post-secondary education.

On the other hand, the educational attainment of the better educated parent of children in working poor, married couple families is not significantly different from the educational attainment of comparable parents in poor, married-couple families not meeting the work standard. Reducing the dependence of these children on public assistance requires more hours of work. Thus, changing the economic incentives to work (such as providing more subsidized day care or providing an even more generous earned income tax credit

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[32] California, Delaware, Florida, Georgia, Indiana, Maryland, Minnesota, Michigan Ohio, Oregon, South Carolina, and Wisconsin.

[33] Research, mainly done for men, suggests that the payoff for GEDs is low (Murnane, 1995)

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(EITC)) represent additional potential strategies to move couples to become economically independent.

The welfare reform legislation increased federal spending on child care assistance in 1997 by an estimated 27 percent over prior law (Long and Clark, 1997). However, it did so by consolidating several key federal child care assistance programs for low income families into a single block grant entitled the Child Care and Development Fund (CCDF). CCDF gives states much more autonomy in both setting total child care spending and in how both the federal and state money is spent. Under CCDF states could either increase or decrease total child care subsidies and could either increase or decrease the percentage of a family's child care expenses that are subsidized. Long and Clark (1997) estimate that, if states maintain their historical levels of spending, "the share of children potentially in need of child care assistance who could be served with the available funds is approximately the same in 1997 as under prior law—roughly one-third." If, on the other hand states either increase or decrease their own spending, the share of children served could range anywhere between 23 percent and 48 percent.

The generosity of the EITC has already been expanded dramatically. As of 1997, working families with at least two children could qualify for an EITC as large as $3,656, compared with only $851 in 1987, the first year covered by this study. A recent study credits the EITC with moving the families of 2.4 million children above the poverty threshold (Center on Budget and Policy Priorities, 1998).

In addition to the disadvantages already discussed, children whose parents are joining the ranks of the working poor may also face an increased risk of lacking health insurance. We have seen in Chapters 4 and 5 that, as recently as 1996, children in working poor families were less likely to have health insurance coverage than either children in poor families not meeting the work standard or children in other working families. However, federal and state policies on health insurance have been rapidly changing over the past few years, and there is now a complex patchwork of eligibility criteria for publicly subsidized insurance for children in working poor families.

Under present law, low-income children qualify for Medicaid coverage in *all* states if (1) they are children less than age 6 with family incomes below 133 percent of the official poverty line, (2) they are children ages 6 to 15 with income below the official poverty line, (3) they qualify as members of "welfare to work" families, or (4) they are Title IV-E foster care children or adoption assistance children (Kaiser Family Foundation, 1999). States can also provide (but are not required to provide) Medicaid coverage for children whose families meet more generous income cutoffs.

The recently enacted Child Health Insurance Program (CHIP) provides another way for states to obtain a federal subsidy to provide health insurance coverage for children. As of late 1998, the Department of Health and Human Services had approved CHIP programs for 34 states (Kaiser Family Foundation, 1999). In 25 of these states, federal CHIP funds are being used to finance eligibility expansions for Medicaid. However, other states are setting up their own programs to increase child health insurance coverage. In short, the

health insurance coverage issue for children in working poor and working near-poor families is very much in flux at the present time.

Negotiating the transition out of poverty

Federal and state welfare reform legislation seems to be meeting with success in moving welfare recipients into work activities in spite of their competitive disadvantage in the labor market. However, the next step of moving working poor families out of poverty may be much more difficult. There is a vast gulf between poor families (both working and not meeting the work standard) and working nonpoor families in both educational attainment and hourly wage rates.

A high school diploma is nearly universal for at least one parent in working nonpoor families, and a majority of such parents have at least some college. Similarly 80 percent of the better paid parents in married-couple families and over half of the mothers in single-mother families are earning more than $10.00 per hour.

This suggests that moving children from the ranks of both working poor families and poor families not meeting the work standard (especially single-parent families) above the poverty line may require a substantial investment in the human capital of their parents. This investment may be very difficult to undertake if we are expecting these parents to be making a very substantial work effort at the same time (which is the case under the "Work First" philosophy of the welfare reform legislation). Nevertheless, as noted earlier in this chapter, policy-makers should be sure to note the forthcoming results of the JOBS experiment focused on remedial adult education to determine if a public investment in the education of parents in poor families is worthwhile.

Children in working poor families are at a substantial disadvantage compared with children in other working families, and this disadvantage is not just economic. Their parents are substantially less educated; they are less likely to be covered by health insurance; they are less likely to live in owner-occupied housing; and their families are less likely to own a car. With respect to health insurance, as of 1996, they were even less likely to be covered than children in poor families not meeting the working standard. Finally, when children in working poor families are enrolled in paid child care, the cost of this child care often consumes a substantial percentage of family income.

There are several ways in which adults in working poor families with children could increase their income to the point that they escape poverty. One way is to work more hours. However, even assuming that jobs are available, families are likely to face increased child care expenses, which may largely offset the extra income—especially if the extra hours earn low wages. In addition, as explained below, these extra wages will be taxed at a high marginal rate if income is in the "phase-out" interval of the earned income tax credit.

A second way is to obtain jobs paying a higher wage rate. Sometimes, obtaining and holding on to a job may generate a higher wage rate over the long run. This is especially likely to be true if the employee receives on-the-job training, which increases work

productivity and may possibly lead to promotions. However, low-wage jobs do not necessarily lead to an upward career path. Often additional formal education is required. However, as noted earlier, it may be difficult for persons already making a substantial work commitment to find the time to become better educated.

A third plausible way to help the children in these families escape poverty is to encourage marriage for single parents. Marriage provides a family with at least the potential for two earners, and two parents working full-time can generally escape poverty as measured by the official standard. (As we have seen, however, there are many married-couple families meeting the work standard that are nonetheless in poverty.)

However, many of the programs that have been set up to provide assistance to low-income families with children weaken the economic incentive for a single parent to get married. One of the most important programs causing incentive problems is the earned income tax credit (EITC). In 1997, for a family with two children earning between $11,930 and $29,290, the EITC was reduced by 21 cents for every dollar of additional income. Thus, a single mother with two children with $11,000 of income (below the official poverty line) receives the maximum credit of $3,656. But if she marries a man also earning $11,000 per year, the family is eligible for a credit of only $1,535, which is $2,121 less than she would have received had she not married (Wheaton, 1998).

This same feature of the EITC also reduces the incentive for parents in the "phase-out" interval to either increase their hours worked or invest in education or training to increase their wage rates. Consider a single parent considering whether to increase her earnings by increasing her hours worked.

The EITC phaseout "tax" of 21 percent is imposed on top of a federal payroll tax rate exceeding 7 percent, a 15 percent marginal federal income tax, and the marginal state income tax rate (if any). If the marginal state income tax rate is 5 percent, she will keep only 52 cents for every additional dollar she earns. Out of those extra net earnings, she may also have to pay for extra hours of child care services.

The discussion above only addresses the effects of the tax system. The needs-tested transfer system, including TANF, Food Stamps, and Medicaid, have similar phase-out problems. As income increases, benefits either gradually or abruptly are terminated. Thus, in certain circumstances, families may actually be made worse off by earning more (Steurle, forthcoming).

Although it is impossible to eliminate altogether the "phase-out" problems discussed above, it is possible (at a cost to the federal treasury) to adjust the ranges over which they take place and/or reduce the "tax rates" that they implicitly impose. For example, providing two-earner couples with a $5,000 increase in their federal income tax standard deduction (Wheaton, 1998) would move the phase-out range for the EITC up the income scale by $5,000. Thus, its disincentive effects wouldn't apply to families still at or just above the poverty threshold. Raising the threshold for a child's eligibility for Medicaid (which has already been done, although not uniformly across the states or across

children's ages) is another way of avoiding imposing penalties on low-income families for increasing their work effort and/or wages.

In short, while policy-makers' attention has been focused on getting parents in welfare families to increase their work effort, they must also focus their attention on how to help both welfare families and working poor families out of poverty.

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